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Three Essays on U.S. - China Relations

A dissertation presented

by

Erin Ashley Baggott

to

The Department of Government

in partial fulfillment of the requirements
for the degree of
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in the subject of
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Three Essays on U.S. - China Relations

Abstract

My dissertation argues that the United States and China employ diplomacy to secure international cooperation, but that their domestic politics render it more elusive.

International relations theory regards talk as cheap. It argues that states cannot employ verbal communication to overcome structural conditions that ostensibly favor conflict. Can a security-seeking state use diplomacy to affect another's assessment of shared interests and elicit substantive cooperation? To answer this question, my first paper analyzes original datasets of US-China diplomatic exchanges and American assessments of shared interests with China. I find that, as diplomats have long observed, diplomacy is a forum for states to exchange concessions that render both sides better off. Chinese diplomacy improves American assessments of shared interests and increases the probability of bilateral cooperation.

My second paper develops a theory of diversionary aggression in autocracies. When rent transfers to political elites decline, leadership challenges become more likely. Autocrats may inoculate themselves against these challenges by courting popular support with diversionary foreign policy and nationalist propaganda. Using original data on elite transfers, diplomatic interactions, and propaganda from China, I find broad support for the theory. As much as 40% of China's conflict initiation toward the United States appears to be diversionary.

My third paper argues that American congressional politics reduce the president's ability to secure international cooperation. Using an original dataset of legislative hostility toward China, I find that when Congress introduces legislation hostile to China, China penalizes the president by reducing its willingness to cooperate by a factor of four. Most broadly, these results suggest that the benefits accorded to democracies in international relations may be

circumscribed under some conditions.

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1 | Small Events in High Politics

1.1 Introduction

Does diplomacy matter in international politics? The scholarly consensus is no. “Words are cheap,” writes Thomas Schelling, “not inherently credible when they emanate from an adversary.”¹ Rationalists argue that only costly signals—like building arms, mobilizing forces, or making audience cost generating threats—are credible enough to influence adversaries’ beliefs and behavior.² Because diplomacy is costless, the argument goes, both aggressive and pacific states should signal their willingness to cooperate, and so all states should discount such talk.

In contrast to this consensus, there is a small but growing formal literature on costless diplomatic signaling.³ Inspired by the folk theorem, these scholars observe that words—however costless or cheap—constitute the foundation for reputations, which are valuable in international politics.⁴ “The prospect of acquiring a reputation for lying,” Sartori (2005, 5) explains, “keeps statesmen and diplomats honest.”⁵ Others suggest that diplomacy is im-

¹Schelling (1980, 150).

²Fearon (1995, 1997, 1994); Kydd (2007).

³Tarar and Leventoglu (2009); Ramsay (2011); Trager (2010); Guisinger and Smith (2002); Kurizaki (2007); Trager (2011). See the forthcoming review by Trager (2016).

⁴Jervis (1970); Dafoe, Renshon, and Huth (2014); Sartori (2002, 2005); Guisinger and Smith (2002). See also the informal theory in Yarhi-Milo (2013) and the empirical evidence linking backing down to subsequent dispute initiation in Weisiger and Yarhi-Milo (2015).

⁵Related models suggest that when cheap talk occurs on multiple topics, credible information transmission is possible (Chakraborty and Harbaugh 2007; Trager 2011). Additionally, private threats may be credible if states avoid public threats in order to avoid provoking public nationalism in the threatened state (Kurizaki 2007).

portant for different reasons. Constructivists argue that verbal communication can socialize states and persuade them to interpret their interests differently. Critical theorists draw on Habermas' theory of communicative action to explain dialogue in international institutions.⁶ Still others suggest that diplomacy may be a product of diplomats' partisan orientations or that states may employ irrational "diplomacies of anger."⁷

Can diplomacy change interstate perceptions and facilitate cooperation between suspicious, security-seeking states? I find that it does, and for reasons cited by diplomats themselves: when governments believe they will require the cooperation of their foreign counterparts in the future, they have strong incentives to establish reputations for honesty now. The Cardinal of Richelieu thought a good reputation "so important to a great prince that no possible gain could compensate for its loss."⁸ "You might think we sit around and consider whether to bluff with the Chinese," one retired American diplomat told me. "But I can guarantee you, there was never an instance in which we discussed how much we could get out of the Chinese if we bluffed."⁹

Strong reputations enable states to pursue cooperation through diplomacy for the sake of self interest. 19th century diplomats viewed diplomacy as *négociation continuelle*, "ongoing negotiations" that served as a forum in which to pursue national interests. The goal of diplomacy, so construed, is to trade policy concessions in order to serve long-term interests. It is a forum in which states propose strategies to realize mutual gains and then negotiate over their distribution. Although diplomacy may, in the long term, have beneficial effects for trust and goodwill between nations, its proximate cause is self interest. As one 1979 US National Security Council (NSC) memorandum asked, "What are the Chinese doing for us?" They were "helping to tie Moscow down," it answered, "and much of what we are doing for

⁶The constructivist and critical literatures are large, but see, for example, Risse (2000); Krebs and Jackson (2007); Johnston (2001); Müller (2004); Crawford (2009); Mitzen (2005).

⁷Rathbun (2014); Hall (2011).

⁸Hill (1961, 101).

⁹Thomas Christensen, interview with author, 12 January 2016.

them out of seeming generosity is really to keep them afloat and in the game.¹⁰

Governments too view diplomacy as a critical tool of foreign policy. In 1871 there were fewer than 200 diplomatic missions; today there are over 8,000.¹¹ The new US embassy compound in Beijing cost US\$434 million, covers 10 acres, and employs nearly 1,000. Upon its dedication the American ambassador said, “Our new embassy, together with the impressive new Chinese embassy in Washington... are tangible symbols of the growth and importance of our bilateral relationship.”¹²

These arguments generate a range of observable implications. If diplomacy is costly rather than cheap, then verbal communication between states should affect policymaker assessments about the extent to which they share common interests. When states agree that mutual gains may be possible, this favorable judgment will be reflected in internal deliberations. More, diplomacy will increase the probability of cooperation from both parties.

I explore the effect of diplomacy in US-China relations between 1969 and 1992, a period which was characterized by intense, mutual suspicion, and during which cooperation was both useful and fraught. The analysis draws from two original datasets. The first is a history of China’s relations with the United States between 1949 and 2014. It is drawn from three dozen primary and secondary sources and records 3,000 bilateral interactions across a host of issue areas and sensitivity levels. I code daily episodes of diplomacy, criticism, cooperation, and conflict. This dataset is, to my knowledge, one of only a handful on diplomacy and by far the most extensive.¹³

The second dataset records senior American policymakers’ assessments of the extent to which the United States shares interests with China. For the 1969-1979 period, I draw from the *Foreign Relations of the United States* series, which is the official record of declassified

¹⁰Aaron and Oksenberg (1979).

¹¹Bayer (2006).

¹²Liu Shanshan (2008).

¹³I know of two other datasets on diplomacy. Trager (2015) finds that half the inferences drawn by British foreign policy elites between the Crimean and First World wars were the result of diplomatic encounters, defined as verbal or written speech acts. Trager (Forthcoming) records 1,100 demands, offers, and assurances made by European great powers between 1900 and 1914.

policymaker discussions and memoranda. For the 1980-1992 period, I draw from tens of thousands of documents yielded by two Freedom of Information Act (FOIA) requests. I employ computational methods to digitize the documents and extract day-level data on American assessments of the extent of shared interests with China.

Reverse causality is a potential concern in estimating the relationships between diplomacy, assessments of common interests, and cooperation. Chinese diplomacy may encourage American cooperation, but American cooperation renders Chinese diplomacy more likely. Likewise, more favorable American assessments of shared interests with China may encourage American cooperation, but a history of cooperation may render favorable assessments more likely. I attempt to overcome these sources of bias with dynamic causal inference. This method is common in epidemiology and has been recently introduced to political science by Blackwell (2013). By weighting observations according to the probability of diplomacy occurring at any given point in time, it renders diplomacy as good as randomized conditional on the observed history of recent interactions and other covariates. Reweighting the data in this manner enables me to estimate the causal effect of Chinese diplomacy upon American assessments of shared interests and bilateral cooperation.

This paper advances our understanding of international relations by demonstrating that in some circumstances, talk may affect interstate perceptions and facilitate international cooperation. Scholars have long struggled to measure the effect of verbal communication in international politics. The largest obstacle to this research agenda has been the absence of primary data on the beliefs of policymakers. More, scholars have lacked high-quality data on bilateral cooperation. Even if they studied the relatively crude measures of bilateral cooperation that do exist, like trade flows or alliances, they would not have been able to put that cooperation in the proper context, lacking data on diplomatic exchanges. Indeed, a forthcoming book notes that “there is no large- N dataset that covers threats or other diplomatic events that did not take place in the public eye.”¹⁴ Thus, scholars would not have been able to understand the circumstances that yielded public cooperation.

¹⁴Trager (Forthcoming, 21).

By employing computational and archival methods to measure the beliefs of policymakers and the private interactions between them, this paper suggests a range of important questions for future research. When is verbal communication more or less likely to facilitate cooperation? Do dyads or alliances that effectively communicate secure better international outcomes than those that do not? How do domestic politics affect states' ability to communicate? How does success in pursuing common interests affect states' ability to negotiate over divergent interests? Does self-interested diplomacy yield goodwill over time?

This article proceeds as follows. Section 2 suggests that diplomacy is best understood as a forum in which to pursue national interests, a belief common among diplomats. Section 3 introduces the original data on bilateral interactions and American assessments of China. Section 4 tests the observable implications of the argument in a dynamic causal inference framework. Section 5 concludes with suggestions for future research.

1.2 Understanding Diplomacy

1.2.1 An Intellectual History

In 1796, Edmund Burke coined the term “diplomacy.” Burke’s term has come to dominate discourse, but has also, to a degree, obscured the fundamental purpose of the activity. Before Burke, diplomacy was known as *négociation continuelle*: “ongoing negotiations.” Seventeenth and eighteenth century diplomats had a stable understanding of the aims and methods of diplomacy. Common interests, they agreed, were necessary for the emergence of diplomacy.¹⁵ Had one state nothing to gain from another, cooperation would be impossible. A state, then, employed diplomacy when it inferred another might share common interests. If the other state agreed that interests were shared, negotiations began in which each side attempted to secure its interests.

National interests, then, were paramount to these diplomats. “The chief prize of this

¹⁵This assumption is shared by the recent literature on costless diplomatic signaling. See, e.g., Sartori (2002, 137).

kind of ‘continuous negotiation’,” a diplomatic reference works concludes, “was obviously to secure agreements congenial to one’s interests.”¹⁶ Abraham de Wicquefort wrote that the “chief functions” of an ambassador were to convey information between princes, to gather court secrets, and to “preserv[e] the interest of his master.”¹⁷ The Cardinal of Richelieu wrote that “States receive so much benefit from uninterrupted foreign negotiations. . . that it is unbelievable unless it is known from experience.” The diplomat’s art, in his view, was to “find the right instant to attain his ends.”¹⁸

Indeed, Richelieu provided specific advice about how best to secure national interests. Diplomats should provide convincing reasons to “men of genius,” but could capture the sympathies of lesser men with trivial concessions. Sometimes diplomats should react harshly to “imprudent remarks,” but other times they should have “an ear only for those remarks leading toward the end in mind.” He forbade bluster due to the damage it could do to a state’s reputation and advised secrecy to avoid interference by others.¹⁹

Overall, these diplomats shared three beliefs about diplomacy. Because diplomatic reputations are valuable, verbal communication can affect policymaker assessments. When policymakers believe their state may share common interests with another, they become more likely to cooperate. And finally, cooperation is likely to be reciprocated. A state that incurs a reputation for defection will soon find few others willing to countenance the exchange of policy concessions.

1.2.2 Diplomacy as Negotiation in US-China Relations

A range of anecdotal evidence suggests that diplomacy has played precisely this sort of role in the US-China relationship. This subsection presents a range of archival evidence that shows that American diplomats viewed themselves as negotiators trying to extract

¹⁶Berridge, Keens-Soper, and Otte (2001, 75).

¹⁷de Wicquefort (1716, 296).

¹⁸Hill (1961, 94-95).

¹⁹Berridge, Keens-Soper, and Otte (2001, 78).

concessions from China. It then discusses the range of issues the two states negotiated over, including economic, security, and human rights policy. Finally, it discusses the contentious nature of many these exchanges, which supports an interpretation of diplomacy as negotiation.

Reagan and Bush administration diplomats viewed themselves as negotiators pursuing the national interest. Indeed, *most* personal files of NSC China staff from this era involve negotiating material: instructions, proposals, and counterproposals. One book-length report from RAND entitled *Chinese Negotiating Behavior* appeared in many personal files. A NSC memorandum advised Vice President Walter Mondale before a trip to China that

The Chinese do not engage in explicit horse-trading. Their initial bids also tend to be close to their final price, and concessions come at the last minute. They exhibit great patience and skill in extracting maximum concessions from their adversaries but they never acknowledge these concessions. They never cease to remind others of their own concessions, however.

It continued with advice about how best to pursue American interests in light of China's typical negotiating strategy:

...you should keep some items in reserve: certainly the President's letter to Hua and the Brown visit. You should keep the initiative in terms of setting the agenda. And you should early on identify for them the items on which we expect them to deliver so that you do not leave China unhappy: consulates, hydro-electric agreement, commitment to enter into serious negotiations on aviation, Chinese assistance and forbearance as we push the economic issues through the Hill, Kampuchea, refugees, and Pakistan. You should subtly indicate there is a chance you might leave China unhappy, and this would adversely effect the relationship for years to come.

Negotiations did not only involve economic issues. Some scholars expect that states may more easily cooperate in economic policy, in which absolute gains benefit both parties, than in security policy, in which relative gains considerations may make cooperation more difficult. To the contrary, China often requested and received security policy concessions from the United States. In the mid-1970s, China wanted advanced military equipment

to balance the Soviet threat. Kissinger secretly facilitated China's request. He publicly denied knowledge of French and British military sales to China in order to insulate himself from domestic criticism, but privately told Britain that the United States would look the other way.²⁰ In 1979, President Carter told French, West German, and British leaders that he "would not be unhappy with a more relaxed Western attitude regarding Chinese arms purchases."²¹ He soon approved satellite and radar sales to China. The same year, Deng requested American electronics to spy on Soviet nuclear tests. After negotiating the terms of cooperation—that Chinese technicians would operate the equipment but that China would share intelligence with the United States—the two countries jointly installed monitoring equipment in western China in 1980.²²

Other negotiations involved human rights issues. For example, in 1997, Jiang Zemin "hinted" he might be willing to release a prominent Chinese dissident, Wei Jingsheng, if the Clinton administration agreed not to "use" Wei against China and could get Wei to state that he was leaving China voluntarily.²³ After Wei was released, American officials "welcomed the news on weekend talk shows," then-National Intelligence Council East Asia officer Robert Suettinger wrote, "but provided no details of the complex and extended negotiations that had brought it about."²⁴

The negotiations that led to these outcomes were often contentious. The fact that they were suggests that diplomats viewed these exchanges as a forum to advance national interests in the short term. For example, in 2008, Treasury Secretary Hank Paulson was involved in financial liberalization negotiations with China's chief trade negotiator Wu Yi. "When my team at Treasury and I heard we weren't getting the equity caps concession," he wrote, "we... decided to invite Wu Yi and colleagues to dinner at my home to work on her some more."

²⁰Ross (1995, 89).

²¹Ross (1995, 148).

²²Ross (1995, 147-151).

²³Suettinger (2003, 340).

²⁴Suettinger (2003, 340).

Paulson and Wu had a “loud” discussion on the patio, in which Paulson shouted, “You and I promised each other that there wouldn’t be any surprises, but here I am, surprised and embarrassed.”²⁵

Another example of a contentious yet productive exchange was Secretary of State James Baker’s meeting with Premier Li Peng in November 1991. One NSC member described the exchange as “the worst meeting I’ve ever been in in my life,” while the American ambassador called it “the tensest and most confrontational meeting I ever sat in on in China.” Nonetheless, by the end of the trip, Baker conceded to China’s request to remove sanctions on high-speed computers and satellite technology. In return, China agreed to observe the Missile Technology Control Regime, to attempt to prevent the export of prison labor products to the United States, to investigate intellectual property rights theft, and to release two “prominent” dissidents.²⁶

1.2.3 Taking Stock

Diplomacy, and the negotiation that often follows, aims to secure national interests through the exchange of policy concessions over time. As two NSC staffers explained, “mutual efforts are necessary to achieve our objective. ...it is in China’s interest to have good relations with us; they need us as much as we need them.”²⁷ Other theories suggest that diplomacy may reflect domestic partisan concerns, that it may seek to reshape other states’ interests through persuasion or socialization, or that it may involve the irrational expression of emotion. In contrast, I argue that diplomacy is fundamentally about reciprocal policy concessions. It proceeds from common interests and helps states move toward the Pareto frontier over the long-term. While diplomacy may have favorable long-term consequences for trust and goodwill, it is most proximately a forum for pursuing mutual gains.

If diplomacy is a tool that states employ to identify common interests and negotiate

²⁵Paulson (2015, 209-210).

²⁶Suettinger (2003, 130-131).

²⁷Aaron and Oksenberg (1979).

policy concessions, then we should observe three trends in the historical record. First, diplomacy must be able to affect the beliefs of policymakers. Mainstream IR theory argues that verbal communication can have no such effect. For example, Andrew Kydd argues that Mikhail Gorbachev's initial efforts to cooperate with the West were discounted because they were costless; it was only when Gorbachev unilaterally cut 50,000 troops in Eastern Europe that the United States believed that his move towards "defensive defense" was credible.²⁸ In contrast, I expect that diplomats are able to influence each other's beliefs about common interests in general. This yields the first hypothesis:

H1: Following a Chinese diplomatic overture, American policymakers should be more likely to believe they share common interests with China.

Second, after receiving a diplomatic overture, a state will be more likely to grant a policy concession. Because states know they will interact in the future, they will be willing to make concessions now in order to secure concessions important to them in the future. Game theorists find that cooperation under anarchy can be sustained by tit-for-tat strategies.²⁹ As long as players expect to interact in the future, cheap signals increase the probability of cooperation. I expect that the logic of iterated interaction should be as compelling for states as it is for individuals. This yields the next hypothesis:

H2: Conditional on a recent diplomatic overture, the probability of American cooperation with China will be higher than otherwise.

Finally, policy concessions are likely to be reciprocated. Indeed, archival evidence suggests that reciprocation was often expected between the United States and China. For example, in December 1989, Under Secretary of State Robert Kimmitt advised the president that "The Chinese have been calling on us to take the first steps to rebuild the relationship,

²⁸Kydd (2007).

²⁹Axelrod and Hamilton (1981); Crawford (1998); Crawford and Sobel (1982); Farrell and Gibbons (1989); Tingley and Walter (2011).

implying but not saying outright that they will reciprocate should we move.”³⁰ Similarly, in May 1984, China offered to make peaceful reunification overtures to Taiwan, conditional on the United States terminating arms sales.³¹

Just as Baker’s decision to remove sanctions on military technology exports was rewarded with Chinese concessions on nonproliferation, trade, and human rights, I suggest that diplomats are likely to reciprocate each other’s concessions in general. Failure to do so would harm their reputation, which would make it more difficult for them to secure concessions important to them in the future. This yields a final hypothesis:

H3: Conditional on a recent diplomatic overture, the probability of Chinese cooperation with the United States will be higher than otherwise.

1.3 Data

1.3.1 Diplomatic Data

US-China Interactions, 1949-2014

To test the hypotheses, I constructed a dataset of over 3,000 bilateral interactions between 1949 and 2014 from three dozen primary and secondary sources listed in B. I drew from historical volumes, policymaker memoirs, case studies, periodicals that follow Chinese politics such as the *China Leadership Monitor*, declassified primary source documents, and leaked American diplomatic cables from 1990 onwards provided by WikiLeaks.³² This analysis is restricted to 1969-1992, the period covered by the policymaker assessment data introduced below.

By hand coding some 10,000 pages of historical documents, I was able to capture private encounters that do not appear in traditional event datasets. In my coding scheme, a bilateral

³⁰Kimmitt (1989).

³¹Laux (1983).

³²Wikileaks covers US-China relations between 2003 and the end of 2009 with the greatest frequency. However, some cables cover the 1990-2002 period.

interaction is an *episode of contact* between the two states. For example, in 1950 the United States voted against replacing Taiwan with the People’s Republic in the United Nations. Later that year, Premier Zhou Enlai sent Washington private, third party warnings not to invade Korea through the Indian ambassador to China. In 1986, the Reagan administration secretly requested Chinese assistance in arming the Nicaraguan contras. China complied. After being lobbied by FedEx and UPS in 2009, Secretary of State Hillary Clinton requested that China reduce barriers to entering its postal market.

For all these episodes, I recorded the *date* of the interaction. When it was not possible to identify the exact date, I identified the month that it occurred. I next recorded the *source* and *target* of the interaction. Most international events are directional. For example, John F. Kennedy offered food aid to China, while Hank Paulson requested that China appreciate the renminbi. Some, however, involve equal effort by both parties, like negotiating or signing an agreement. I duplicated these events so both sides received credit equally.

I then recorded the *action* itself: diplomacy, criticism, cooperation, or conflict. With a few adjustments for IR theory discussed below, these categories are similar to the “quad scores” employed in event datasets, which record verbal cooperation, verbal conflict, material cooperation, and material conflict.

I define *diplomacy* as cooperation in word rather than deed. As shown in Table 1.1, it includes positive statements, requests, meetings, negotiations, visits, explanations, reassurances, offers, statements of regret, proposals, and promises.

Cooperation, in contrast, entails material deeds. It includes audience cost generating official apologies, the release of imprisoned foreign nationals, concessions, the provision of economic or humanitarian aid, the signing of official agreements, presidential summits, and yielding militarily.

Criticism entails negative verbal interactions. As shown in Table 1.2, it includes unfriendly statements made by executive or congressional figures, the postponement of scheduled talks, the downgrading of diplomatic protocol for a visit, refusals, demands, warnings, private threats, and public threats made by low ranking officials. In keeping with the IR

Table 1.1: Positive Interactions

Action	
Positive statement	} Diplomacy
Request	
Meet	
Negotiate	
Invite	
Visit	
Explain	
Reassure	
Offer	
Express regret	
Propose	
Promise	

Apologize	} Cooperation
Release nationals	
Cooperative congressional action	
Concede	
Aid	
Sign agreement	
Hold summit	
Yield militarily	

* See Appendix A for examples.

literature I draw the line between criticism and conflict at audience cost generating leader threats.³³ Private threats between executives or their representatives are “cheap” because they do not incur domestic audience costs. Low ranking or retired officials are not credible sources of executive intent, thus, IR theory considers their threats cheap as well.

Conflict includes public leader threats, the obstruction of the other side’s initiatives, the withdrawal of support, the cancellation of planned exchanges, punitive economic actions, hostile congressional acts, human rights violations, interfering in the other party’s domestic affairs, inciting anti-foreign nationalist protest, arresting the other state’s nationals, espionage, formally downgrading relations, and all forms of military claims, exercises, and conflict.

Because Taiwan, Tibet, and Chinese dissidents are salient in the bilateral relationship, I record American cooperation with these entities as conflict with China, and conflict with

³³ Fearon (1994); Weeks (2008). Some studies suggest that autocrats are only able to generate audience costs by inciting domestic nationalist protests (Weiss 2013, 2014; Kinne and Marinov 2013). The results are robust to this modification.

Table 1.2: Negative Interactions

Action	
Negative statement	} “Criticism”
Congressional hearing	
Postpone	
Downgrade protocol	
Refuse	
Demand	
Warn	
Private threats	
Public low ranking threats	} Conflict
Public leader threats	
Obstruct	
Withdraw support	
Cancel exchanges	
Punitive economic action	
Congressional act	
Infringe upon human rights	
Intervene on behalf of dissident	
Incite protest	
Arrest nationals	
Espionage	
Develop weapon system	
Assert territorial claim	
Proliferate	
Downgrade relationship	
Military exercise	
Military conflict	

* See Appendix A for examples.

them as cooperation with China. Examples of all action types appear in Appendix A.³⁴

I then recorded the *issue area* of the interaction, such as arms sales or intellectual property rights, as well as its private or public *venue*. Finally, I recorded a *description* of the event and its *source*.

Trends

Figure 1.1 visualizes the bilateral relationship since 1949. The top panel shows the number of diplomatic, critical, cooperative, and conflictual interactions initiated by China annually. The bottom panel shows the same data for the United States. Diplomacy is more common than criticism and talk is far more common than action. The volume of bilateral interaction expanded massively over the study period. This is unsurprising since the two countries avoided official contact before 1969 and normalized relations only in 1978. Two gaps in the dataset—in the mid-1980s and the early 2000s—reflect sparsity in the primary and secondary historical record. However, I expect that this source of measurement error is classical.

The United States and China interacted differently in periods of common versus divergent interests. Table 1.3 reports annual rates of diplomacy, cooperation, and conflict in two periods. I define 1949-1968 as the period of “divergent interests” due to the strong Sino-Soviet alliance. I define 1969-1989 as the period of “common interests,” beginning with the Sino-Soviet split and ending with the fall of the Berlin Wall.

The tabulation is rough but instructive. When the two countries shared common interests, bilateral diplomacy was 10 times as frequent and bilateral cooperation 5 times as frequent. Bilateral conflict was slightly less frequent, averaging 0.95 conflicts per year compared to 0.8. Overall, the table supports the basic presumption of diplomats and the costless signaling literature: common interests facilitate diplomacy and cooperation.

³⁴A note is appropriate on routine military patrols. There are many of these and they are difficult to record accurately. I record policy changes that alter military patrols—making them more aggressive, for instance, or mandating them in new areas—rather than the specific patrols themselves. This is appropriate because policymakers respond to changes in the other side’s assertiveness rather than to status quo patrols.

Figure 1.1: Diplomacy Data

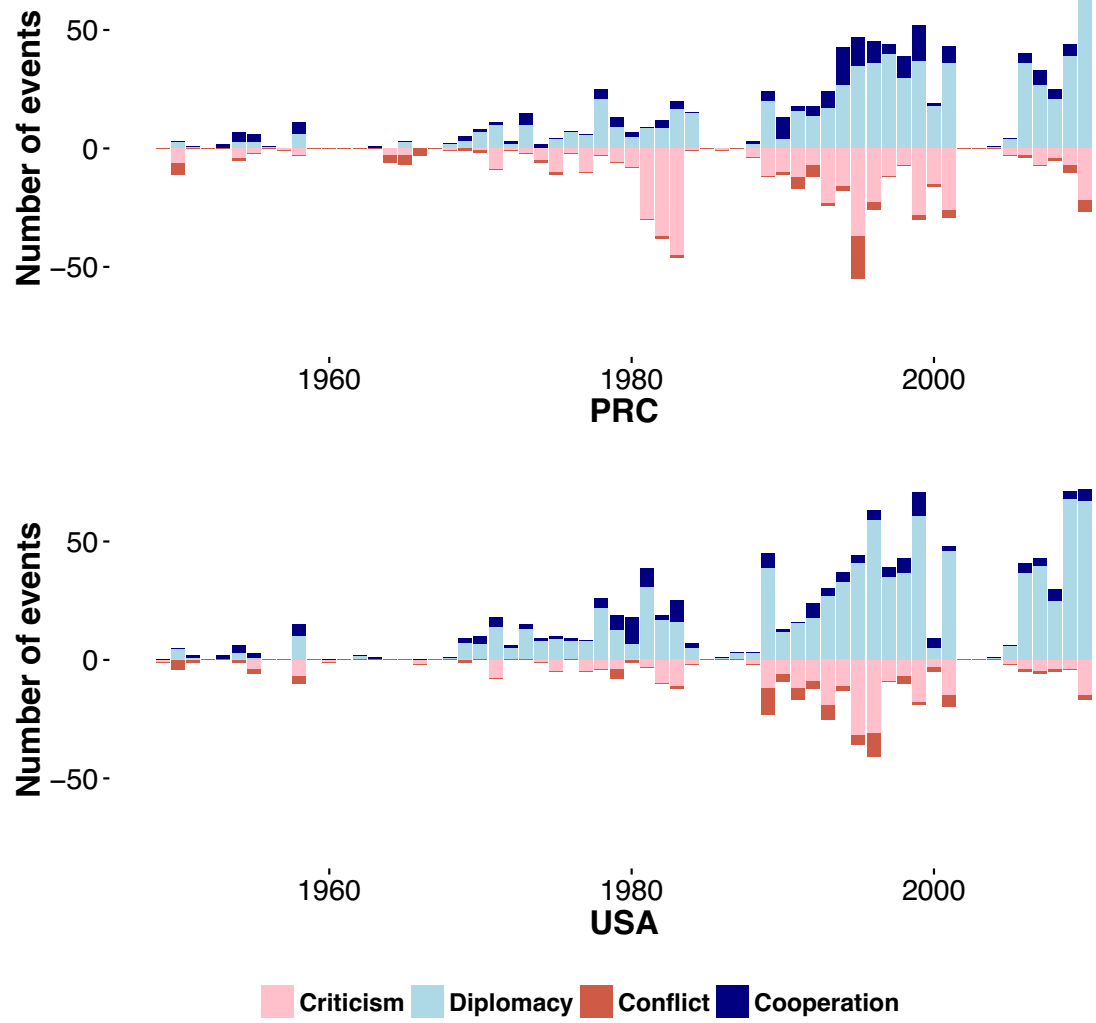


Table 1.3: Annual Frequency of Bilateral Interactions by Period

	<i>Interests</i>		<i>Change</i>
	<i>Divergent</i> <i>1949-1968</i>	<i>Common</i> <i>1969-1989</i>	
Diplomacy ^{PRC}	1.1	7.85	7.1×
Diplomacy ^{USA}	0.95	11.35	12.0×
Cooperation ^{PRC}	0.55	1.6	2.9×
Cooperation ^{USA}	0.4	2.8	7.0×
Conflict ^{PRC}	1	0.35	0.35×
Conflict ^{USA}	0.85	1.25	1.5×

Comparisons

This dataset represents a significant advance over existing event datasets. The popular Militarized Interstate Dispute dataset records only costly forms of conflict, not cooperation. Daily event datasets such as GDELT or Gary King’s “10 million events” record bilateral interactions with great frequency but tremendous noise. By my estimation, 20-30% of these events are false positives or false negatives: respectively, events that were omitted by the automated event coding process and events that were included mistakenly.

Additionally, I identified many more diplomatic action types than recorded in standard event ontologies like Conflict and Mediation Event Observations (CAMEO). Existing ontologies were constructed from news wires, which omit some important types of diplomatic interaction. Examples include demurring, canceling an invitation, postponing talks, expressing restraint, passing a congressional resolution, and sentencing or offering asylum to a dissident. Omissions are also considerable for classified military interactions. For example, China has occasionally employed aggressive aircraft tails and submarine dogfights. These episodes are very important, but appear only in policymaker memoirs and declassified documents. Finally, many international negotiations take place out of the public eye and escape the attention of news wires. Virtually all of the diplomacy discussed in Section 2, for example, would not appear in standard event datasets.

1.3.2 American Assessments of Shared Interests with China, 1969-1992

The second dataset records senior American policymaker assessments of the degree to which the United States shared common interests with China. For the 1969-1981 period, I draw from the *Foreign Relations of the United States* (FRUS) series. FRUS is the “official documentary historical record of major foreign policy decisions and significant diplomatic activity of the United States Government.”³⁵ It consists chiefly of policymaker discussion transcripts and memoranda.

FRUS effectively operates with a 40-year declassification schedule. To gather more data on American perceptions, I submitted Freedom of Information Act (FOIA) requests for national security documents on China to the Ronald Reagan and George H.W. Bush presidential libraries. From each, I received tens of thousands of pages of declassified documents.

I digitized all FRUS and FOIA documents that contained assessments of China between 1969 and 1992. These typically include meeting transcripts and memoranda between NSC principals and deputies, the Secretaries of State, Defense, and Commerce, and the president. They also include less common reports such as National Security Decision Directives. Because FRUS is composed of the same material I accessed through FOIA, the two corpora are very similar.

To convert documents into time series data on policymaker assessments of China, I identified each instance that a document referenced “China,” “Chinese,” “Beijing,” or a Chinese leader’s name on day t . For each identifier, I then extracted the 10 words before and after the reference. This is known as the “concordance method” and isolates the segment of speech that refers directly to the identifier. Next, drawing on standard semantic dictionaries, I measured how fulsome or critical were these 20 words.³⁶ The variable $Assessment_t$ captures the tone of policymaker deliberations about China. It measures the number of fulsome words,

³⁵Phillips and Keefer (2006, iii).

³⁶I employed the *Positiv* and *Negativ* dictionaries from Stone (2016). The results are robust to 30, 40, and 50 word concordance segments. In order to ensure accurate matches, I used a snowball stemmer to reduce dictionary entries and document words to their root stems. Before generating concordance segments, I removed punctuation but not numbers.

divided by the number of fulsome plus critical words, in the 20-word segment.

Could the variable capture anything other than assessments of shared interests? For instance, if positive tone indicated that American policymakers felt goodwill toward China or trusted China, this might support a constructivist interpretation of diplomacy rather than the interest based explanation of diplomacy that I propose. Based on my qualitative reading of the documents, however, I concluded that this is not a concern. There were virtually no expressions of abstract goodwill or trust in policymaker deliberations. While policymakers sometimes praised China, they did so because China had done something that served American interests. Similarly, American policymakers rarely discussed whether they should or did trust China.³⁷

Table 1.4 shows a document that positively assessed China. To illustrate how I score positive and negative tone, I **bold** the identifier and then *italicize* the 10 words on either side. Positive words are rendered in *blue*, while negative words are rendered in *red*. This document contains 23 positive words and 3 negative words in the concordance segments, and so registers a net positive coverage of 88.5%, considerably higher than the mean tone of 68.5% over 1969-1992. By the standards of my corpus, this article is optimistic about the extent of common interests. Indeed, the author states this explicitly: “we have seen a substantial improvement in US-China relations. The Chinese fundamentally share our view that a strong bilateral relationship serves our mutual interests.”

Table 1.5 shows a document with a pessimistic assessment of China. This passage contains 3 positive words and 3 negative words in the concordance segments, and so registers a net positive coverage of 50%, considerably lower than the sample mean of 68.5% over 1969-1992. The low score reflects the author’s pessimistic assessment of the extent of common

³⁷Indeed, Reagan and Bush era policymakers only used the term “trust” in reference to how Chinese elites distrusted each other, how Chinese students distrusted the government, and how China distrusted Japan and the USSR. In one case, a policymaker warned that reversing the Carter ban on contact with Taiwanese officials would foster Chinese mistrust. In a 1981 memorandum on Taiwan policy, Ambassador Lilley counseled Richard Allen to tell the Chinese that “They need to understand that trust works both ways.” In 1984, an interagency study noted that “responsible behavior by the Chinese” in military areas “will help reassure U.S. strategic planners and increase trust between us.” Chinese leaders did, however, tell American policymakers they were “trustworthy” on several occasions.

Table 1.4: Example Document: Common Interests

SECRET
THE WHITE HOUSE
WASHINGTON
April 7 , 1984
MEMORANDUM FOR THE PRESIDENT
FROM: ROBERT C. McFARLANE
SUBJECT: Your Visit to China

Issue

Your trip to **China** will further document your leadership in *establishing a peaceful framework* for relations among the world's great powers. Moreover, the trip should highlight a continuity of policy towards achievement of this end, drawing on past accomplishments (Williamsburg Summit, Japan/Korea), and directed toward the *future (London Summit)*.

Facts

A *secure, stable, and economically viable* **China** is obviously *essential to peace and stability in the Pacific Basin*. It is also central to effective deterrence of Soviet expansionism and hegemony in global terms. To achieve our objectives, the US should seek to maintain solid bilateral and multilateral ties which contribute importantly to both regional and global stability as well as to *bilateral, economic, political, and security arrangements*. A *good relationship with* **China** also *assists* Taiwan as it helps dissuade **Beijing** from taking *hostile action against* the Taiwanese.

Over the past year, we have seen a substantial *improvement in* US-China relations. The Chinese fundamentally *share* our view that a strong bilateral relationship serves our *mutual interests*. Premier **Zhao**'s January visit to the United States moved this process *forward* and developed a personal *rapprochement* between you and the Chinese leadership; it reinforced our *common* goals of *blocking* Soviet expansionism; it stimulated dialogue on cooperative means to realize greater stability on the Korean peninsula; it renewed our very useful agreement on science and technology exchange and resulted in a new agreement on industrial cooperation; and it reemphasized our *common commitment to expand economic relations and to assist* **China** in its modernization program.

These themes should be further developed and carried *forward* during your visit to **China**. In addition, the visit should tangibly demonstrate our active *interest* in developing nations and reaffirm our broader goal of seeking greater cohesion among the nations of the Pacific Basin. ...

Table 1.5: Example Document: Divergent Interests

SECRET/SENSITIVE
THE SECRETARY OF STATE
WASHINGTON
May 24, 1982
MEMORANDUM FOR: The President
From: Alexander M. Haig, Jr.
Subject: Taiwan Arms Sales: Next Steps Following Vice President's Visit

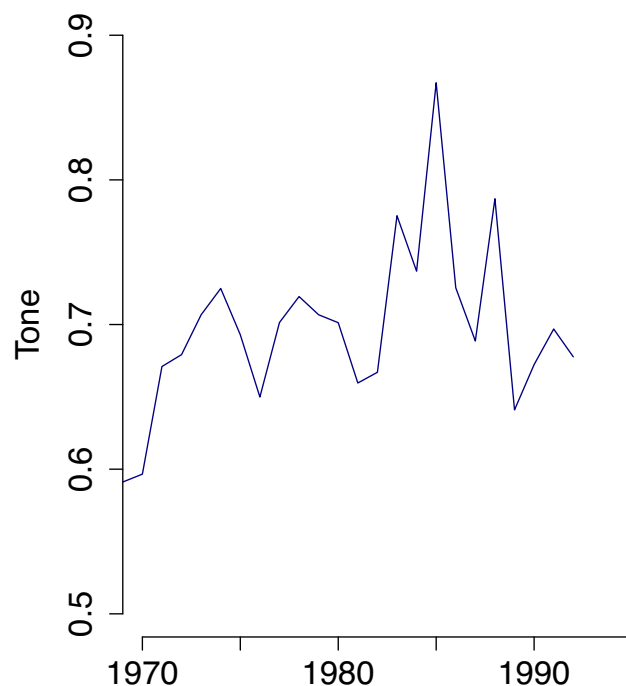
*China's de facto ruler, Vice Chairman **Deng** Xiaoping has asked for something the US Government cannot **give**: a private assurance that the United States will gradually reduce and eventually cease arms sales to Taiwan "within a certain period of time." He wants you to do this privately, because he knows we will not do so publicly. We cannot comply, not only because it would **violate** the TRA – unless caveated so heavily the **Chinese** would surely **reject** it – but because we cannot deal with an issue of this nature on the basis of secret understandings.*

*Despite the Vice President's superb and **successful** effort to improve the atmosphere, the **crisis** in US-China relations therefore remains. In their treatment of the Vice President, and statements to him, particularly those by **Deng**, the **Chinese** have shown a strong desire to **improve** relations; but they continue to press us to accept, in principle, that arms sales must one day end, and they seem determined to push for this bottom line, even at the possible risk of a downgrading. ...*

interests with China: "Deng Xiaoping has asked for something the US Government cannot give."

Broader trends in American assessments correspond to the historical record. Figure 1.2 shows average annual American assessments of China between 1969 and 1992. Policymakers became more optimistic about the prospects for cooperation with China after the Sino-Soviet split emerged in 1969. Assessments cooled in the two years prior to Mao Zedong's death in 1976, a chaotic time for Chinese domestic politics that made international progress difficult. American assessments rebounded as Deng undertook reforms to open China to the world economy in the late 1970s. They cooled in 1981, reflecting bitter disagreement over the terms of a joint communiqué concerning arms sales to Taiwan. American policymakers remained generally optimistic about the prospects for cooperation throughout the 1980s, a decade of economic liberalization and security cooperation. American assessments became very pessimistic after Tiananmen. China's crackdown drastically reduced its common interests

Figure 1.2: American Assessments of Shared Interests with China



with a democracy. Assessments became more favorable between 1990 and 1992 as the two sides sought to quietly rebuild the relationship despite congressional hostility to China.

1.4 Analysis

Subsection 1 explains dynamic causal inference. Subsection 2 estimates the effect of Chinese diplomacy upon senior American policymakers' assessment of the degree to which the United States shared common interests with China. Subsection 3 estimates the effect of Chinese diplomacy upon the probability of American cooperation with China. Subsection 4 estimates the effect of Chinese diplomacy upon the probability of Chinese cooperation with the United States. Subsection 5 presents robustness checks, including ordinary least squares (OLS) models and a discussion of how often cooperation is actually preceded by diplomacy

and updated assessments in the dataset.

1.4.1 Dynamic Causal Inference

In traditional single-shot causal inference, a group is treated and its outcome is compared to that of an untreated group. The difference in outcomes is the average causal treatment effect. In many real-world settings, single-shot causal inference is impossible. For example, a doctor treating a patient alters the treatment regimen based on its success. Democrats campaigning for office decide to run negative advertisements based on whether they and their rivals have done so in the past. China decides whether to initiate diplomacy based on its recent interactions with the United States. In each case, the treatment—administering medicine, going negative, or initiating diplomacy—is not randomized. In US-China relations, recent bilateral actions are “time-varying confounders”: they influence whether China employs diplomacy in the future, and are affected by whether China employed diplomacy in the past.

Dynamic causal inference solves this problem with inverse probability of treatment weighting (IPTW). The method is widely used in epidemiology and was recently introduced to political science.³⁸ The intuition behind it is quite simple. IPTW reweights observations to make Chinese diplomacy as good as randomized conditional on the observed history. For example, diplomacy is more likely when recent interactions have been positive. To remove this source of time-varying confounding, we can give less weight to common strategies, so that in the reweighted data all strategies have the same weight. That is, in the reweighted data, China will be as likely to initiate diplomacy when recent relations have been poor as when they have been friendly. In the reweighted data, the action sequences are balanced across time-varying confounders. Thus, there is no omitted variable bias.³⁹ The researcher can then analyze the reweighted data as though they were randomized.

³⁸Robins, Hernan, and Brumback (2000); Blackwell (2013).

³⁹For a full discussion, see Blackwell (2013, 507). Also note: Dynamic causal inference is preferable to another popular approach, structural equation modeling, because the latter requires a constant effects assumption to estimate dynamic causal effects.

The method enables causal inference conditional on two assumptions: sequential ignorability and positivity. Sequential ignorability is fulfilled if, conditional on the past, Chinese policymakers who decide to initiate diplomacy are similar to those who do not.⁴⁰ Sequential ignorability would be violated if an omitted variable besides recent interactions influenced China’s decision to initiate diplomacy. Therefore I control for the other international and domestic sources of Chinese diplomacy as best I can. Positivity is a technical requirement that theoretically possible action sequences occur in the actual data. It would be violated, for example, if China never initiated diplomacy. The positivity assumption is not problematic because China initiated diplomacy many times over 1969-1992.

To employ the IPTW method, the researcher first explicitly models the probability of treatment and then estimates the probability of the outcome based on the treatment history.⁴¹

1.4.2 Chinese Diplomacy and American Perceptions

The first hypothesis states that following a diplomatic overture, American policymakers should be more likely to believe they share common interests with China. If diplomacy is cheap, as some IR scholars suggest, it should not affect American assessments of China. But if American policymakers discuss China more favorably after a Chinese diplomatic initiative, this is evidence that China has verbally communicated information that American policymakers believe to be credible.

To test this hypothesis, first I model the probability of treatment, a dichotomous measure of whether China initiated diplomacy on day $t-1$, as a function of international and domestic factors. Recent bilateral interactions profoundly influence China’s propensity to initiate diplomacy. I define *Net cooperation*^{USA} as the number of cooperative interaction the United

⁴⁰More formally, the sequential ignorability assumption “states that action decision at time t is independent of the potential outcomes, conditional on the covariate and action histories up to that point” (Blackwell 2013, 509).

⁴¹I employ the `iptw_est()` function in the `causaldrf` R package developed by Galagate and Schafer (2015).

States initiated less the number of conflictual interactions it initiated in the past fortnight. I define *Net diplomacy*^{USA} as the number of diplomatic interactions the United States initiated less the number of critical interactions it initiated in the past fortnight. Because Chinese foreign policy may be path dependent, I include *Net cooperation*^{PRC} and *Net diplomacy*^{PRC} in the past fortnight as well.

Other slow moving variables may influence China's decision to initiate diplomacy. As China grows more powerful, it may require fewer policy concessions from the United States and may thus initiate diplomacy less frequently. Therefore I include the ratio of Chinese to American *military expenditures* and Chinese *GDP per capita*. Because interdependent states presumably cooperate more, I include the natural log of bilateral *trade volume*. I include the average value of these variables over the past fortnight, although they are almost always observed at the year level.

China may be less focused on its relationship with the United States when it is burdened elsewhere. Therefore I include a dichotomous indicator of whether China is involved in an ongoing *militarized interstate dispute*. This variable takes a value of 1 if China was involved in a dispute within the past fortnight.

China's domestic politics may also influence its foreign policy. *Party congresses* chart new courses for Chinese foreign and domestic policy. China's *independence day* is a cause for nationalist celebration and might render China more aggressive abroad. I include dichotomous indicators for whether these days occurred within the past fortnight.

Finally, I include three sets of fixed effects in separate models. Mao Zedong, Deng Xiaoping, and Jiang Zemin brought different priorities and negotiating strategies to foreign affairs. It would be unreasonable to constrain their probability of initiating diplomacy to the same intercept. Therefore I include *leader* fixed effects. American presidents engaged with China differently, and so I include *administration* fixed effects. Finally, I account for unobserved sources of variation with *year* fixed effects. The estimating equation for the treatment model is thus:

$$\begin{aligned}
\text{Logit (Diplomacy)}_{t-1}^{PRC} = & \beta_1(\text{Net diplomacy})_{t-1:t-14}^{PRC} \\
& + \beta_2(\text{Net cooperation})_{t-1:t-14}^{PRC} \\
& + \beta_3(\text{Net diplomacy})_{t-1:t-14}^{USA} \\
& + \beta_4(\text{Net cooperation})_{t-1:t-14}^{USA} \\
& + \beta_5(\text{Ongoing MID})_{t-1:t-14}^{PRC} \\
& + \beta_6(\text{Military expenditure})_{t-1:t-14}^{PRC/USA} \\
& + \beta_7(\text{GDP per capita})_{t-1:t-14}^{PRC} \\
& + \beta_8(\text{Log trade volume})_{t-1:t-14}^{PRC+USA} \\
& + \beta_9(\text{Party Congress})_{t-1:t-14}^{PRC} \\
& + \beta_{10}(\text{Independence day})_{t-1:t-14}^{PRC} \\
& + \lambda_t
\end{aligned} \tag{1.1}$$

where λ_t represents leader, administration, or year fixed effects depending on the model. The treatment model yields the reweighted data. In the reweighted data, the probability of Chinese diplomacy is as good as random, conditional on the of covariates.

I employ the reweighted data to estimate the outcome model. The outcome model estimates the effect of the treatment, Chinese diplomacy, upon the probability of improved American assessments the following day. The outcome variable, $\text{Improved assessment}_t^{USA}$, is a dichotomous variable that takes a value of 1 if American assessments on a given day were higher than their last observed value. Because the covariates have already been used to reweight the data, they are not included as controls in the outcome model. Its estimating equation is thus:

$$\text{Logit (Improved assessment)}_t^{USA} = \beta_1(\text{Diplomacy})_{t-1}^{PRC} \tag{1.2}$$

The results appear in Table 1.6. The top panel shows treatment estimates and the bottom panel shows outcome estimates. Model (1) estimates the probability of Chinese diplomacy

as a function of recent bilateral actions. Model (2) includes domestic and international covariates. Model (3) includes administration fixed effects. Model (4) includes leader fixed effects. Model (5) drops administration and leader fixed effects in favor of year fixed effects. Because administrations, leaders, and years overlap considerably, it is difficult to include them all in the same model.

In the absence of fixed effects, Chinese diplomacy appears to have no relationship with American policymaker assessments in Models (1) and (2). But when administration-, leader-, and year-level sources of variation are accounted for, Chinese diplomacy renders American assessments more favorable. The effect is precisely estimated (at the $<1\%$ significance level) owing to the day-level data. More, the point estimate is relatively stable across the three fixed effect models. On average, an episode of Chinese diplomacy renders American policymakers an estimated 12.2% to 14.2% more optimistic about the extent of shared interests with China.⁴²

In a real-world setting, this is a reasonably sized point estimate. Chinese diplomacy should rarely produce a seachange in American assessments. Rather, American deliberations about China become slightly more positive after a diplomatic proposal, reflecting American policymakers' cautious optimism that American interests might be advanced through negotiations.

The fact that there is *any* shift at all in American assessments following an episode of Chinese diplomacy is evidence that verbal communication between states is not “cheap.” To the contrary, Chinese diplomatic proposals lead American policymakers to view China more favorably in their private discussions.

1.4.3 American Perceptions and American Cooperation

The second hypothesis states that once American policymaker assessments improve, the probability of American cooperation with China will rise. This hypothesis captures the

⁴²The outcome model is logistic, so these figures are calculated by exponentiating the coefficients: $\exp(0.155)$ and $\exp(0.132)$, respectively.

Table 1.6: Causal Effect of Chinese Diplomacy on American Perceptions (IPTW)

<i>Treatment Model</i>					
	Diplomacy ^{PRC} _{t-1}				
	(1)	(2)	(3)	(4)	(5)
Net diplomacy ^{PRC} _{t-1:t-14}	0.5662** (0.1855)	6.902e-01** (2.357e-01)	2.103e+00*** (6.303e-01)	2.095e+00** (6.372e-01)	2.344e+00** (7.323e-01)
Net cooperation ^{PRC} _{t-1:t-14}	-0.1111 (0.9222)	-2.909e-01 (9.131e-01)	-2.637e+00* (1.319e+00)	-2.624e+00* (1.325e+00)	-2.513e+00† (1.395e+00)
Net diplomacy ^{USA} _{t-1:t-14}	-0.2867 (0.2925)	-3.155e-01 (3.398e-01)	-1.329e+00* (5.787e-01)	-1.325e+00* (5.802e-01)	-1.556e+00* (6.542e-01)
Net cooperation ^{USA} _{t-1:t-14}	-0.8546* (0.3626)	-8.424e-01† (4.804e-01)	-1.286e+00* (5.571e-01)	-1.282e+00* (5.577e-01)	-1.670e+00* (7.250e-01)
Ongoing MID ^{PRC} _{t-1:t-14}		-1.126e+00 (1.095e+00)	-4.137e-02 (1.647e+00)	-6.733e-02 (1.678e+00)	-1.730e+00 (3.386e+00)
Military expenditure ^{PRC/USA} _{t-1:t-14}		-3.348e+00 (1.099e+01)	-4.095e+01* (2.027e+01)	-4.062e+01* (2.062e+01)	-6.917e+01 (2.568e+05)
GDP per capita ^{PRC} _{t-1:t-14}		-8.948e-04 (4.395e-03)	-2.006e-03 (1.775e-02)	-2.136e-03 (1.784e-02)	1.290e+00 (4.112e+02)
Log trade volume ^{PRC+USA} _{t-1:t-14}		-1.652e-01 (2.678e-01)	2.460e-01 (5.294e-01)	2.423e-01 (5.321e-01)	-1.657e+01 (1.653e+04)
Party congress ^{PRC} _{t-1:t-14}		-1.516e+01 (4.360e+03)	-1.631e+01 (1.437e+04)	-1.633e+01 (1.443e+04)	-1.647e+01 (1.728e+04)
Independence day ^{PRC} _{t-1:t-14}		-1.438e+01 (2.093e+03)	-1.510e+01 (7.829e+03)	-1.510e+01 (7.790e+03)	-1.434e+01 (7.459e+03)
Constant	-4.7433*** (0.4580)	-1.549e+00 (5.516e+00)	-2.786e+00 (2.511e+01)	-2.546e+00 (2.529e+01)	-7.751e+02 (2.651e+05)
Administration fixed effects	No	No	Yes	Yes	No
Leader fixed effects	No	No	No	Yes	No
Year fixed effects	No	No	No	No	Yes
Observations	644	644	640	640	640
AIC	84.23	94.11	85.48	89.47	114.44
<i>Outcome Model</i>					
	Improved Assessment ^{USA} _t				
	(1)	(2)	(3)	(4)	(5)
Diplomacy ^{PRC} _{t-1}	-0.076410 (0.127865)	0.041718 (0.131696)	0.132340** (0.043260)	0.132424** (0.043457)	0.115334*** (0.023744)
Constant	-0.001295 (0.007435)	-0.001292 (0.007435)	-0.001113 (0.007437)	-0.001112 (0.007437)	-0.001311 (0.007459)

Note:

†p<0.1; *p<0.05; **p<0.01

idea that diplomacy elicits negotiations, which, if successful, lead to an exchange of policy concessions.

To test this hypothesis, first I model the treatment: average American assessments of shared interests with China within the past fortnight. In contrast to the first hypothesis test, I measure American assessments as the mean deviation from their average level. I do so in order to be able to show *how much* a given improvement in assessments affects the probability of cooperation. After all, policymaker assessments may change a little or a lot: this presumably weighs heavily in deciding whether or not to cooperate with China. From an econometric standpoint, it is not problematic to employ mean deviations, because American assessments of China were not trended over the period.⁴³ Because the treatment variable is continuous rather than dichotomous, I estimate the treatment model with OLS.

I model American assessments in the past fortnight as a function of that fortnight's values of all the abovementioned covariates. I do so because American assessments are influenced by the recent bilateral history of interactions, slow moving variables that capture shifting power dynamics and interdependence, and Chinese domestic variables that American policymakers might believe to affect prospects for cooperation. In addition, I control for American perceptions in the previous fortnight ($t - 15 : t - 28$). American assessments might be path dependent, so it is important to include this lagged measure. The estimating equation for the treatment model is thus:

⁴³Figure B.1 in Appendix B shows day-level assessments between 1969 and 1992.

$$\begin{aligned}
\text{OLS (Assessment)}_{t-1:t-14}^{USA} = & \beta_1(\text{Net diplomacy})_{t-1:t-14}^{PRC} \\
& + \beta_2(\text{Net cooperation})_{t-1:t-14}^{PRC} \\
& + \beta_3(\text{Net diplomacy})_{t-1:t-14}^{USA} \\
& + \beta_4(\text{Net cooperation})_{t-1:t-14}^{USA} \\
& + \beta_5(\text{Ongoing MID})_{t-1:t-14}^{PRC} \\
& + \beta_6(\text{Military expenditure})_{t-1:t-14}^{PRC/USA} \\
& + \beta_7(\text{GDP per capita})_{t-1:t-14}^{PRC} \\
& + \beta_8(\text{Log trade volume})_{t-1:t-14}^{PRC+USA} \\
& + \beta_9(\text{Party Congress})_{t-1:t-14}^{PRC} \\
& + \beta_{10}(\text{Independence day})_{t-1:t-14}^{PRC} \\
& + \beta_{11}(\text{Assessment})_{t-15:t-28}^{USA} \\
& + \lambda_t + \epsilon
\end{aligned} \tag{1.3}$$

where, as before, λ_t represents leader, administration, or year fixed effects depending on the model. The treatment model enables me to reweight the data to make observed American assessments as good as random, conditional on the set of covariates in the model.

Next, I use the reweighted data to estimate the effect of American assessments in the past fortnight upon the probability of American cooperation. The outcome variable is a dichotomous measure of whether the United States cooperated with China on a given day. The estimating equation for the outcome model is thus:

$$\begin{aligned}
\text{OLS (Cooperation)}_t^{USA} = & \beta_1(\text{Assessment})_{t-1:t-14}^{USA} \\
& + \epsilon
\end{aligned} \tag{1.4}$$

The results appear in Table 1.7. Model (1) estimates American assessments of China as a function of recent bilateral actions. Model (2) includes domestic and international covariates. Model (3) includes administration and leader fixed effects. Model (4) drops

administration and leader fixed effects in favor of year fixed effects. As before, because administrations, leaders, and years overlap considerably, it is difficult to include them all in the same model.

In the absence of fixed effects, American assessments of shared interests with China appear to have no relationship with subsequent American cooperation with China in Model (1). But when administration and leader sources of variation are accounted for, improved assessments increase the probability of American cooperation in Models (2) and (3). Again, owing to the day-level data, the effect is precisely estimated (at the $<1\%$ significance level). When year fixed effects are used instead of leader and administration fixed effects in Model (4), the effect is just shy of conventional significance levels ($p = 0.11$).

The estimated effect is relatively stable across the three fixed effect models. A one percentage point increase in American assessments in the previous fortnight renders American cooperation on a given day an estimated 0.7 to 1.3 percentage points more likely. This appears to be a small estimated effect, but recall that the first IPTW model showed that an episode of Chinese diplomacy improved American perceptions by 12.2% to 14.2% on average. If American policymaker assessments increased by this percentage starting from their mean value, then cooperation would become 5.9% to 10.9% more likely.

In a real-world setting, this is a moderately sized effect, considering that international cooperation is rare and usually takes several rounds of negotiations to achieve. When American policymakers discuss China more favorably in their internal deliberations, this reflects their assessment that cooperation with China might be possible. These discussions often lead to negotiations, which are sometimes successful. On average, when American policymakers have stronger beliefs that the United States and China share common interests, cooperation is more likely.

1.4.4 American Cooperation and Reciprocal Chinese Cooperation

The third hypothesis states that American cooperation should increase the probability of Chinese cooperation. To test this hypothesis, first I model the treatment: a dichotomous

Table 1.7: Causal Effect of American Perceptions on American Cooperation (IPTW)

<i>Treatment Model</i>				
	Assessment ^{USA} _{t-1:t-14}			
	(1)	(2)	(3)	(4)
Net diplomacy ^{PRC} _{t-1:t-14}	0.0004082 (0.0014435)	1.417e-03 (1.427e-03)	2.126e-04 (1.430e-03)	-9.881e-04 (1.432e-03)
Net cooperation ^{PRC} _{t-1:t-14}	-0.0018088 (0.0053265)	-5.206e-03 (5.193e-03)	1.357e-03 (5.307e-03)	-5.683e-03 (5.057e-03)
Net diplomacy ^{USA} _{t-1:t-14}	-0.0083669*** (0.0014822)	-8.524e-03*** (1.440e-03)	-7.394e-03*** (1.488e-03)	-4.661e-03*** (1.404e-03)
Net cooperation ^{USA} _{t-1:t-14}	-0.0056476 [†] (0.0033932)	-6.893e-03* (3.324e-03)	-9.344e-03** (3.417e-03)	-7.475e-03* (3.274e-03)
Ongoing MID ^{PRC} _{t-1:t-14}		2.613e-02*** (3.570e-03)	1.186e-02** (4.587e-03)	-1.063e-03 (5.098e-03)
Military expenditure ^{PRC/USA} _{t-1:t-14}		6.801e-02 (4.610e-02)	2.539e-01*** (6.301e-02)	8.860e-01 [†] (4.878e-01)
GDP per capita ^{PRC} _{t-1:t-14}		-3.530e-05* (1.686e-05)	1.569e-04*** (2.397e-05)	-4.214e-05 (2.572e-04)
Log trade volume ^{PRC+USA} _{t-1:t-14}		1.359e-02*** (8.695e-04)	1.502e-02*** (1.565e-03)	8.574e-02*** (1.715e-02)
Party congress ^{PRC} _{t-1:t-14}		-4.202e-02* (1.705e-02)	-5.756e-02*** (1.672e-02)	-3.304e-02* (1.656e-02)
Independence day ^{PRC} _{t-1:t-14}		-2.113e-02* (8.290e-03)	-1.993e-02* (8.749e-03)	-2.262e-02** (7.937e-03)
Constant	0.0046376* (0.0018092)	-7.298e-02** (2.317e-02)	-4.339e-01*** (3.542e-02)	-2.676e-01 (2.156e-01)
Administration fixed effects	No	No	Yes	No
Leader fixed effects	No	No	Yes	No
Year fixed effects	No	No	No	Yes
Observations	5323	5317	4394	5294
<i>Outcome Model</i>				
	Cooperation ^{USA} _t			
	(1)	(2)	(3)	(4)
Assessment ^{USA} _{t-1:t-14}	0.021117 [†] (0.011036)	0.013125*** (0.003702)	0.006738*** (0.001737)	0.031229 (0.019632)
Constant	0.007213*** (0.001437)	0.007050*** (0.001459)	0.005238*** (0.001066)	0.008086*** (0.002201)

Note: [†]p<0.1; *p<0.05; **p<0.01

measure of American cooperation within the past fortnight. I model it as a function of disaggregated bilateral interactions and the abovementioned covariates. I disaggregate bilateral interactions because my explanatory variable, American cooperation, is disaggregated. To control for net values of interaction variables alongside a pure measure of American cooperation would be unusual. In addition, I control for the level of American assessments of China within the past fortnight, because these directly influence the United States' propensity to cooperate with China. Finally, I control for American cooperation in the previous fortnight ($t - 15 : t - 28$) because American foreign policy may be path dependent. The estimating equation for the treatment model is thus:

$$\begin{aligned}
\text{Logit (Cooperation)}_{t-1:t-14}^{USA} = & \beta_1(\text{Diplomacy})_{t-1:t-14}^{PRC} \\
& + \beta_2(\text{Criticism})_{t-1:t-14}^{PRC} \\
& + \beta_3(\text{Cooperation})_{t-1:t-14}^{PRC} \\
& + \beta_4(\text{Conflict})_{t-1:t-14}^{PRC} \\
& + \beta_5(\text{Diplomacy})_{t-1:t-14}^{USA} \\
& + \beta_6(\text{Criticism})_{t-1:t-14}^{USA} \\
& + \beta_7(\text{Cooperation})_{t-15:t-28}^{USA} \\
& + \beta_8(\text{Conflict})_{t-1:t-14}^{USA} \\
& + \beta_9(\text{Ongoing MID})_{t-1:t-14}^{PRC} \\
& + \beta_{10}(\text{Military expenditure})_{t-1:t-14}^{PRC/USA} \\
& + \beta_{11}(\text{GDP per capita})_{t-1:t-14}^{PRC} \\
& + \beta_{12}(\text{Log trade volume})_{t-1:t-14}^{PRC+USA} \\
& + \beta_{13}(\text{Party Congress})_{t-1:t-14}^{PRC} \\
& + \beta_{14}(\text{Independence day})_{t-1:t-14}^{PRC} \\
& + \beta_{15}(\text{Assessment})_{t-1:t-14}^{USA} \\
& + \lambda_t
\end{aligned} \tag{1.5}$$

where, as before, λ_t represents leader, administration, or year fixed effects depending on the model.

Next, I use the reweighted data to estimate the effect of American cooperation in the past fortnight upon the probability of Chinese cooperation on a given day. The estimating equation for the outcome model is thus:

$$\text{Logit (Cooperation)}_t^{PRC} = \beta_1(\text{Cooperation})_{t-1:t-14}^{USA} \quad (1.6)$$

The results appear in Table 1.8. Model (1) estimates American cooperation with China as a function of recent bilateral interactions and American assessments of common interests. Model (2) includes domestic covariates, international covariates, and administration fixed effects. Model (3) drops administration fixed effects in favor of year fixed effects.

The evidence indicates that American cooperation in the past fortnight renders Chinese cooperation on a given day an estimated 0.7% more likely. This is a small point estimate but is realistic in a real-world context. International cooperation is a rare event and generally takes many rounds of negotiations to realize. The fact that American cooperation within the past fortnight—a extremely brief period in international relations—renders Chinese cooperation significantly more likely the following day to any extent is evidence that reciprocation matters in international politics.

1.4.5 Robustness Checks

Tables B.1 and B.2 in Appendix B estimate the above relationships in an OLS setting. I find that Chinese diplomacy in the past fortnight is significantly associated with improved American assessments on day t . American assessments in the past fortnight are significantly associated with a higher probability of American cooperation on day t . However, I find no evidence that American cooperation in the past fortnight is significantly associated with a higher probability of Chinese cooperation on day t .

This paper has proposed a three step framework: that diplomacy leads to more favorable

Table 1.8: Causal Effect of American Cooperation on Chinese Cooperation (IPTW)

<i>Treatment Model</i>			
	Cooperation ^{USA} _{t-1:t-14}		
	(1)	(2)	(3)
Diplomacy ^{PRC} _{t-1:t-14}	0.0127929 [†] (0.0066652)	-0.0087409 (0.0069461)	-0.0230176*** (0.0069103)
Criticism ^{PRC} _{t-1:t-14}	-0.0080312 (0.0057982)	-0.0125272* (0.0061321)	-0.0117392 [†] (0.0060509)
Cooperation ^{PRC} _{t-1:t-14}	0.3413108*** (0.0181427)	0.3152997*** (0.0184616)	0.3333178*** (0.0180483)
Conflict ^{PRC} _{t-1:t-14}	-0.0874392 [†] (0.0476045)	-0.0620939 (0.0474762)	-0.0313723 (0.0460134)
Diplomacy ^{USA} _{t-1:t-14}	0.0122837* (0.0060166)	0.0198953*** (0.0060168)	0.0172534** (0.0058930)
Criticism ^{USA} _{t-1:t-14}	0.0522178*** (0.0089478)	0.0521478*** (0.0090847)	0.0536211*** (0.0087124)
Cooperation ^{USA} _{t-15:t-28}	-0.0009489 (0.0135079)	-0.0101290 (0.0135280)	-0.0445770*** (0.0132818)
Conflict ^{USA} _{t-1:t-14}	-0.0026992 (0.0172767)	0.0040701 (0.0178387)	-0.0062061 (0.0175343)
Ongoing MID ^{PRC} _{t-1:t-14}		0.0236033 [†] (0.0129120)	0.0394549* (0.0162530)
Military expenditure ^{PRC/USA} _{t-1:t-14}		-0.4762452** (0.1788632)	17.4205332*** (1.5288804)
GDP per capita ^{PRC} _{t-1:t-14}		-0.0004018*** (0.0000649)	0.0004340 (0.0006695)
Log trade volume ^{PRC+USA} _{t-1:t-14}		0.0065450 [†] (0.0037195)	-0.2960729*** (0.0552568)
Party congress ^{PRC} _{t-1:t-14}		0.3197121*** (0.0497516)	0.3417840*** (0.0483321)
Independence day ^{PRC} _{t-1:t-14}		0.0241641 (0.0263891)	0.0346640 (0.0253956)
Assessment ^{USA} _{t-1:t-14}	-0.0944559* (0.0398812)	-0.0669973 (0.0439685)	-0.0250851 (0.0432684)
Constant	0.1264084*** (0.0281268)	0.7039126*** (0.1074839)	-2.5798889*** (0.4807650)
Administration fixed effects	No	Yes	No
Year fixed effects	No	No	Yes
Observations	5,530	5,460	5,495
<i>Outcome Model</i>			
	Cooperation ^{PRC} _t		
	(1)	(2)	(3)
Cooperation ^{USA} _{t-1:t-14}	0.0065154 [†] (0.0033325)	0.0061262 [†] (0.0035391)	8.388e-03*** (2.546e-03)
Constant	0.0043044*** (0.0004043)	0.0050882*** (0.0005079)	1.045e-06*** (1.945e-07)

Note: [†]p<0.1; *p<0.05; **p<0.01 ***p<0.001

assessments of common interests, that improved assessments lead to cooperation, and that cooperation leads to reciprocal cooperation. How often does this sequence occur in the data?

To answer this question, let us define the “diplomacy sequence” as an act of Chinese diplomacy followed by improved American perceptions of China within a 28-day window. Between 1969 and 1992, the United States cooperated with China 70 times. For 64 of these observations I have policymaker assessment data within the past 28 days. Of these 64, 30 were preceded by the diplomacy sequence. That is, nearly half the time the United States cooperated with China, it had recently updated its assessment of common interests after a Chinese diplomatic initiative. In the same period, China cooperated with the United States 48 times. For 42 of these observations I have policymaker assessment data within the past 28 days. 21 of these were preceded by the diplomacy sequence.

These patterns suggest that diplomacy leads policymakers to update their assessments of the extent of shared interests and then to negotiate the terms of cooperation. Half the time the two states cooperated between 1969 and 1992, China had employed diplomacy and the United States had favorably updated its assessments of common interests within the past 28 days. Though I do not have Chinese assessment data, presumably some of the other episodes of bilateral cooperation were preceded by American overtures and updated Chinese assessments.

1.5 Conclusion

This study contributes to the IR literature by confirming that under some conditions, diplomacy—traditionally understood as “cheap”—may generate favorable bilateral assessments of shared interests and, ultimately, cooperation between states. Experimental economists and theoretical biologists have found robust support that cheap talk matters in human transactions and in the natural world. To them—and to most diplomats—these results will come as no surprise. Nonetheless, the assumption that talk is cheap has been influential in IR for the past 20 years. Only recently have formal theorists begun to suggest that diplomacy may

not be cheap when states face infinite horizons in which their reputations matter.

Future research should proceed in several directions. First, more data on policymaker beliefs and interactions are necessary to advance the diplomatic research agenda. For example, what are the network effects of perceptions and reputations? Theoretical biologists find that groups that learn to communicate outcompete others. Can the same be said for states or alliances in the international system? For example, when a state sullies its reputation in one bilateral relationship, do policymakers in other relationships become pessimistic about the prospects for cooperation? In short, IR scholars should continue to mine national archives.

Second, future research should clarify scope conditions for when diplomacy is effective. Though I find that diplomacy influenced policymaker assessments and facilitated cooperation in US-China relations between 1969 and 1992, it is not always effective. For instance, Mao's signal to President Truman not to enter the Korean War was disastrously ignored. Diplomacy's failures may be more consequential than its successes. Scholars should explore the sources of diplomatic success in a cross-national context. What strategies can render diplomacy credible even in the presence of domestic instability or uncertainty about a state's aims?

Finally, researchers should employ these methods to test constructivist arguments. In focusing on diplomats' pursuit of short-term national interests, I have set aside the important question of whether self-interested diplomacy builds trust and goodwill over time. Can diplomacy shape a state's understanding of its own interests, or how best to pursue them? Some diplomats believe that it can.⁴⁴ States also generally have common interests in some areas and divergent interests in others. Does successful diplomacy in some areas render conflict in other areas less likely? In short, a focus on policymaker beliefs and private interactions between states may offer numerous new ways of examining IR theory.

⁴⁴Christensen (2015).

2 | Diversionary Aggression and Elite Welfare Shocks in Autocracies: Evidence from China

“A rising market eases contradictions; a falling market sharpens contradictions.”

—A Chinese commentator, 2003¹

2.1 Introduction

How is foreign policy in autocracies conditioned by shocks to political elites: the key figures whose support the autocrat needs to survive? Surprisingly little scholarship exists on this question. Drawing on selectorate theory, international relations scholars suggest that institutions that empower a broad class of political elites limit the autocrat’s power and render his foreign policy nearly as pacific as that of his democratic counterparts.² However, the institutional approaches employed by international relations scholars generally overlook elite power struggles in autocracies. Power struggles are endemic to autocracies, comparativists observe, even beneath the veneer of institutions that privilege the autocrat.³ This observation dates to ancient times: Xenophon’s Hiero complains that the tyrant’s life is one of perpetual fear. Across Latin America, Africa, and the Middle East, autocrats create

¹Quoted in Naughton (2003, 35).

²Peceny, Beer, and Sanchez-Terry (2002); Peceny and Beer (2003); Reiter and Stam (2003); Peceny and Butler (2004); Lai and Slater (2006); Weeks (2008, 2012); Mattes and Rodríguez (2014); Magaloni (2008); de Mesquita et al. (2003).

³Svolik (2009, 2012); Boix and Svolik (2013); Egorov and Sonin (2011).

duplicate government portfolios, build informant networks, and organize compulsory social networks to discourage elite leadership challenges.⁴ These findings share a common premise: the contract between autocrat and elite is written in terms of rent transfers. When transfers decline, so does elite support for the autocrat.

To explore how economic shocks to elite welfare affect foreign policy in autocracies, this paper presents a theory in which autocrats draw support from both elites and the public. Indeed, the two can be substitutes. The dual bases of the autocrat's support enlarge his strategy set in ways that are particularly salient for foreign policy. When elite support flags, he may bolster public support to discourage leadership challenges. Popular support counteracts such threats because it deters leadership challenges through the threat of revolution. Because plotters know they would face a hostile public if they successfully challenged a popular leader, the expected payoff of a challenge is lower. Therefore, popular affection for the regime—or the appearance thereof—deters potential challengers. Although contemporary scholars generally regard autocrats as having to satisfy both their elites and the population, Machiavelli observed that the two are substitutes:

one of the most efficacious remedies that a prince can have against conspiracies is not to be hated and despised by the people, for he who conspires against a prince always expects to please them by his removal; but when the conspirator can only look forward to offending them, he will not have the courage to take such a course, for the difficulties that confront a conspirator are infinite.⁵

More recently, Barbara Geddes captured this intuition when she suggested that an autocrat who faces coup threats may build countervailing political forces such as a mass civilian party.⁶

To generate popular affection, I argue, autocrats may employ diversionary foreign policy. Diversion entails the initiation of an international dispute to generate a rally around the flag

⁴Carter (2015c,b); Crassweller (1966); Kapuscinski (1989); Aikins (2012); Staff (2012).

⁵Machiavelli (2012, Ch. XIX).

⁶Geddes (2009). Similarly, Milan Svolik suggests that dictators must resolve two conflicts: threats from the masses and threats from elites (Svolik 2012). If anything, elite threats are the more serious: two thirds of autocrats deposed since World War II were removed by insiders (Svolik 2009, 477-478).

effect. By demonizing an out-group, the leader increases in-group identification and his own popularity.⁷

Of course, executives enjoy a range of policy options to resolve political crises. When elites suffer economic shocks, for instance, the autocrat might increase direct transfers. However, this is expensive and risky, given public frustration with corruption. Alternatively, the autocrat might generate public support by providing public goods. However, this is expensive and time consuming. By contrast, diversionary foreign policy is inexpensive and readily implemented. And if the autocrat can signal to his diversionary target that the

⁷Simmel (1955); Coser (1956). A recent review calls diversionary theory “compelling” but the empirical evidence “decidedly mixed” (Baum and Potter 2008, 48). The literature on diversionary aggression is large but a brief review serves here. Several studies find evidence of diversionary aggression, including: DeRouen (2000); DeRouen and Peake (2002); Clark (2003); Howell and Pevehouse (2005); Fordham (1998); Hess and Orphanides (1995); James and Hristoulas (1994); James and Oneal (1991); Morgan and Bickers (1992); Ostrom and Job (1986); Levy (1989a,b); Oneal and Tir (2006); Tir (2010); Bennett (2000); Dassel and Reinhardt (1999); Davies (2002); Enterline and Gleditsch (2000); Gelpi (1997); Heldt (1999); Lebow (1981); Mansfield and Snyder (1995); Russett (1990); Levy (1988). Yet skeptics have amassed opposing evidence: Chiozza and Goemans (2003, 2004); Foster and Palmer (2006); Moore and Lanoue (2003); Meernik (2004); Potter (2007); Gowa (1998); Leeds and Davis (1997); Lian and Oneal (1993); Meernik (2000); Meernik and Waterman (1996); Johnston (1998); Lai and Reiter (2005). Others outline scope conditions for diversionary aggression. It is more likely between states with pre-standing rivalries (McLaughlin and Prins 2004), when leaders are accountable (Kisangani and Pickering 2011), and in mature democracies, consolidating autocracies, and transitional polities (Pickering and Kisangani 2005). It is less likely when states avoid provoking troubled adversaries (Leeds and Davis 1997; Miller 1999; Clark 2003; Fordham 2005). Rallies are more likely when conflict is supported by Security Council authorization (Chapman 2011; Chapman and Reiter 2004), and in the presence of media attention, popular leadership, divided government, non election years, and first terms (Baker and Oneal 2001; Colaresi 2007). States are more likely to divert when targets evoke feelings of fear or greed from the domestic audience (Jung 2014). Traditional enemies may elicit diversionary aggression driven by rally logic, while powerful targets elicit diversionary aggression driven by “gambling for resurrection” (Haynes 2015).

Emerging research on diversion in autocracies is most relevant to this study. Some argue that because autocrats can contain domestic unrest with repression, they need not divert (Gelpi 1997; Kisangani and Pickering 2011). In contrast, Pickering and Kisangani (2010) suggest that because single party regimes spend more on public goods than personalist or military regimes, they are relatively cash constrained and may employ diversion during a domestic crisis. The authors find that signs of elite unrest such as government crises and purges are associated with the use of external force cross nationally.

Qualitative China scholars argue that domestic politics are important in explaining China’s foreign policy. However, they generally focus on public rather than elite discontent. Ross (2009) attributes China’s aggression in the South and East China Seas to the public’s “naval nationalism.” Shirk (2007) argues that China’s domestic instability is dangerous for the United States. Christensen (1996, 204-205) attributes Mao’s decision to shell Quemoy in 1958 to the need to create a wartime atmosphere to consolidate domestic agricultural collectivization.

However, other China scholars are skeptical about the relationship between public discontent and conflict initiation. Drawing on theories of omnibalancing, Fravel (2008) argues that China’s internal threats require policymaker attention and therefore create incentives for compromise abroad. In a detailed study of protests, Weiss (2014) finds that the Party manages nationalist protests to serve its ends and does not change its foreign policy in response to protester demands.

apparent aggression served only to placate domestic concerns, then diversion entails few international costs as well.

The theory generates several observable implications. Because the autocrat intends to generate public support, he initiates newsworthy conflict rather than that which is unobservable. Because diversion aims to make leadership challenges costlier, it is accompanied by propaganda designed to foster popular affection for the autocrat and the impression thereof. And because the autocrat seeks to avoid international retaliation, he subsequently adopts cooperative policies to placate his diversionary target.

I test the theory in the context of China. I focus on China's foreign policy toward the United States: its strongest potential adversary, and thus the state most likely to produce a rally for the autocrat. China is an appealing case for several reasons. First, it offers a unique opportunity to measure elite transfers. In the early 1990s, by privatizing state owned enterprises (SOEs), the autocrat transferred enormous equity to elites. Indeed, the stock market became the Party's central rent distribution mechanism. Yet because few poor and middle class citizens invest in the stock market, and because stock returns have little effect upon unemployment, there is virtually no connection between stock returns and public interests. Second, the threat of elite challenges is serious in China. Leaders face "incessant threats to their authority."⁸ And finally, the WikiLeaks cables afford rare insight

⁸Shih (2008, 48). Elite politics are the heart of Chinese politics. A classic study states, "The informal dimension has always been paramount" (Dittmer and Wu 1995, 467). *Shili*, informal power, exists astride and sometimes ahead of *quanli*, official power. Elite factions characterized Chinese politics under Mao Zedong and Deng Xiaoping and continue to animate them today. Andrew Nathan defines a faction as "a vertically organized structure composed of face-to-face (rather than corporate) clientelist ties between leaders and led" (Dittmer and Wu 1995, 472). See also Nathan (1973); Fewsmith (2015); Bo Zhiyue (2010). The autocrat requires the support of elites below him, most importantly, the seven in the Politburo Standing Committee and 20 in the Politburo.

Examples of elite leadership challenges in China are numerous. They usually stem from civilian political elites rather than the military. In 1978, Deng Xiaoping peacefully sidelined Mao's appointed successor, Hua Guofeng. In the early 2000s, Shanghai mayor Chen Liangyu was purged after criticizing President Hu Jintao's leadership credentials to other Politburo members (US Embassy Beijing 2006). In 2013, Chongqing mayor Bo Xilai was purged not because his wife murdered a British businessman, many China scholars believe, but because he attempted to assassinate President Xi Jinping. Indeed, Xi once spoke explicitly about the dangers of elite politics. In 2000, he said, "People who have little experience with power, those who have been far away from it, tend to regard these things as mysterious and novel. But I look past the superficial things: the power and the flowers and the glory and the applause. I see the detention houses, the fickleness of human relationships. I understand politics on a deeper level" Osnos (2015).

into diplomatic communication between the US and Chinese governments. As a result, the paper is able to marshal case study evidence in support of the chief causal mechanism. This, indeed, is a significant asset, for the cross-national empirical evidence in support of diversionary aggression is decidedly mixed.

The empirics employ three original datasets. The first records elite transfers since 1990 with the monthly Shanghai Stock Exchange composite index. The second measures Chinese propaganda published in the official newspaper, the *People's Daily*. It was gathered with the computer programming language Python. The third dataset is a diplomatic history of China's relations with the United States since 1990. It is drawn from two dozen primary and secondary sources and records 2,000 bilateral interactions across a host of issue areas and severity levels.

The evidence suggests that when elite transfers through the Shanghai Exchange decline by 5% to 15%—which happens in a quarter of months—China initiates 1.5 to 2 times as much conflict as usual. Therefore, as much as 40% of China's conflict initiation toward the United States may be diversionary.

This study adds to an emerging literature that carefully connects domestic and international realities in autocracies.⁹ Partly because research in autocracies is difficult, scholarship on autocratic foreign policy has not caught up to that on democratic foreign policy, which gives full attention to the subnational sources of international behavior.¹⁰ The emerging research agenda this article joins focuses more closely on these factors and yields a richer explanation of the international behavior of autocracies.

This paper proceeds as follows. Section 2 presents the theory and offers a series of observable implications. Section 3 introduces the diplomatic data, justifies stock returns as a measure of elite transfers, and tests the implications empirically. Section 4 uses policymaker accounts and WikiLeaks cables to show that after the Chinese stock market crashed in 2010, China adopted diversionary foreign policy toward the United States, communicated

⁹Carter (2015a,d); Goemans and Marinov (2014).

¹⁰For a recent review, see Bueno de Mesquita and Smith (2012).

the short term nature of its policy to American officials, and adopted private reassurance behavior after the domestic crisis passed. Section 5 concludes.

2.2 Theory

Building on extant work, especially Pickering and Kisangani (2010), I develop a theory of why elite unrest may result in diversion in autocracies. Consider a simple political environment in which the autocrat draws from two sources of support, elites and the public. He purchases the support of these groups through transfers and public goods provision, respectively.¹¹ When transfers decline, elites are forced to consider the transfers they might receive under alternative leadership. Because some elites may expect to benefit more from alternative leadership, they become more likely to challenge the autocrat. The autocrat seeks to discourage such challenges because they threaten his personal power. He may employ diversion to generate public support. Public support discourages elites from challenging the autocrat because if they were successful, they might face the threat of popular rebellion. This yields the first hypothesis:

H1: When elite transfers decline, the autocrat initiates more conflict with his diversionary target.

If, as the theory predicts, the autocrat diverts to discourage elite challenges, then we should expect him to attempt to broadcast his increased support—and to foster the nationalism that renders elite conspiracies so costly—through his propaganda apparatus. Autocrats have long believed propaganda crucial to regime survival. Joseph Goebbels, the architect of Nazi Germany’s propaganda apparatus, considered it a science.¹² He wrote, “A dictator’s first task is to make what he wants popular, bringing the will of the nation in tune

¹¹In the Chinese context, elites are the highest ranking party members—princelings and senior officials who can credibly challenge the autocrat—and the public includes the rest of the citizens.

¹²For a distillation of Goebbels’ 6,800 page diary into 19 core principles, see Doob (1950).

with his own will. Only then will the broad masses support him in the long run and join his ranks.”¹³ Joseph Stalin used *Pravda* to threaten potential elite challengers with purges.¹⁴ In the past decade, autocrats across Africa and Asia have developed sophisticated propaganda strategies to generate public support despite the open information environment fostered by globalization.¹⁵

Propaganda provides a multiplier effect for diversionary foreign policy. It can both popularize and editorialize conflict. By creating the impression of public support for the autocrat, it can reduce the expected utility of leadership challenges. Thus, when leadership challenges arise, the autocrat will employ propaganda to discourage them. The propaganda apparatus will emphasize how well the autocrat serves popular interests and how widely he is supported by the people. Informed elites may not believe the propaganda, but they will know that it shapes popular beliefs and therefore will update their assessment of the autocrat’s popularity.¹⁶ This yields the next hypothesis:

H2: When elite transfers decline, propaganda emphasizes the autocrat’s public popularity.

The theory also yields hypotheses about the nature of diversion. Most obviously, it will be newsworthy. Diversion serves no use if it is unobserved by the public. A state can harm another’s interests in many private ways, such as denying requests or engaging in aggression which remains classified. These forms of interaction are highly consequential, but because the autocrat diverts to increase popular support, diversionary conflict will be public. Moreover, it will occur in newsworthy, nationalism-generating areas, such as deploying the military or asserting territorial claims. The autocrat will avoid conflict initiation in areas that are important to its diversionary target but less nationalism-generating, such as economic affairs,

¹³Goebbels (1932).

¹⁴Roxburgh (1987).

¹⁵Baggott and Carter (2015).

¹⁶See e.g. Truex (2014).

and in areas that are unlikely to win domestic approval, such as punishing the diversionary target on human rights issues. This yields the next hypothesis:

H3: Diversion takes forms that are public and nationalism-generating.

As the autocrat is strategic with his domestic audience, so too is he strategic with foreigners. Diversion must first produce a rally and second avoid retaliation from the target of diversionary aggression. In the language of the theory, the autocrat balances the desire for a rally against the risk of international retaliation. After the autocrat employs diversion, he faces international consequences. Diversion risks teaching the target of diversion that the autocrat aims to upset the status quo. Therefore, the autocrat should remedy his target's suspicions after the domestic crisis passes. The most obvious way to do so is with cooperation: reassuring the target verbally and coming to its assistance materially. I expect that the autocrat will employ such charm offensives after diverting to recenter his target's prior about the autocrat's intentions. Moreover, those charm offensives will be private rather than public, lest the autocrat's citizens penalize him for backing down. This yields the final hypothesis:

H4: After a diversionary episode, the autocrat will adopt private cooperative initiatives to help his target recenter its prior about the autocrat's intentions.

2.3 Empirical Approach

To test the theory, I focus on China: on the struggles between its political elite and paramount leader, and how these struggles manifest themselves in its bilateral relationship with the United States. Section 2.3.1 introduces the original diplomatic data, which record all bilateral interactions between China and the United States since 1990. To measure elite transfers, I exploit the fact that Chinese elites were compensated during the sample period with shares in state owned enterprises. This is explained in Section 2.3.2. Sections 2.3.3 through 2.3.6 assess the theory's observable implications.

2.3.1 Diplomatic Data

I constructed a dataset of over 2,000 bilateral interactions between 1990 and 2014 from two dozen primary and secondary sources listed in Appendix C. I drew from secondary sources, policymaker memoirs, case studies, periodicals that follow Chinese politics such as the *China Leadership Monitor*, declassified primary source documents, and leaked American diplomatic cables provided by WikiLeaks.¹⁷

In my coding scheme, a bilateral interaction is an episode of contact between the two states. For example, in 1950 the United States voted against replacing the Chinese Nationalists with the People's Republic in the United Nations. Later that year, Premier Zhou Enlai warned the United States not to invade Korea through the Indian ambassador to China. In 1957, Mao Zedong criticized the United States publicly in Moscow, proclaiming that the east wind prevails over the west wind. In 1980, the two countries cooperated to install monitoring equipment in western China to spy on the Soviets. In 1986, the Reagan administration secretly requested Chinese assistance in arming the Nicaraguan contras; China complied. In 1994, Secretary of State Warren Christopher canceled ceremonial appearances on his planned trip to Beijing in retaliation for human rights abuses. After being lobbied by FedEx and UPS in 2009, Secretary of State Hillary Clinton requested that China reduce barriers to entry in the Chinese postal market.

For all these episodes, I recorded the *date* of the interaction. When it was not possible to identify the exact date, I identified the month that it occurred. I next recorded the *source* and *target* of the interaction. Most international events are directional. For example, John F. Kennedy offered food aid to China, while Hank Paulson requested that China appreciate the renminbi. Some, however, involve equal effort by both parties, like negotiating or signing an agreement. I duplicated these events so both sides received credit equally.

I then recorded the *action* itself. *Diplomacy* involves friendly verbal overtures, whereas *cooperation* involves material cooperation. *Criticism* involves negative verbal interactions,

¹⁷Wikileaks covers US-China relations between 2003 and the end of 2009 with the greatest frequency. However, some cables cover the 1990-2002 period.

Table 2.1: Types of Conflict

Action	
Negative statement	}
Congressional hearing	
Postpone	
Downgrade protocol	
Refuse	
Demand	
Warn	
Private threats	}
Public low ranking threats	
Public leader threats	}
Obstruct	
Withdraw support	
Cancel exchanges	
Punitive economic action	
Congressional act	
Infringe upon human rights	
Intervene on behalf of dissident	
Incite protest	
Arrest nationals	
Espionage	
Develop weapon system	
Assert territorial claim	
Proliferate	
Downgrade relationship	
Military exercise	
Military conflict	

* See Appendix A for examples.

whereas *conflict* involves material conflict.¹⁸ Conflictual event types appear in Table 2.1. Cooperative event types appear in Table 2.2. Examples of all event types appear in Appendix A.¹⁹

I then recorded the *issue area* of the interaction, such as arms sales or intellectual property rights, as well as its private or public *venue*. Finally, I recorded a *description*

¹⁸ In keeping with the literature, I drew the line between criticism and conflict at audience cost generating leader threats (Fearon 1994; Weeks 2008). Some studies suggest that autocrats are only able to generate audience costs by inciting domestic nationalist protests (Weiss 2013, 2014; Kinne and Marinov 2013). The results are robust to this modification.

¹⁹ A note is appropriate on routine military patrols. There are many of these and they are difficult to record accurately. I record policy changes that alter military patrols—making them more aggressive, for instance, or mandating them in new areas—rather than the specific patrols themselves. This is appropriate because policymakers respond to changes in the other side’s assertiveness rather than to status quo patrols.

Table 2.2: Types of Cooperation

Action	
Positive statement	} Diplomacy
Request	
Meet	
Negotiate	
Invite	
Visit	
Explain	
Reassure	
Offer	
Express regret	
Propose	
Promise	
Apologize	} Cooperation
Release nationals	
Cooperative congressional action	
Concede	
Aid	
Sign agreement	
Hold summit	
Yield militarily	

* See Appendix A for examples.

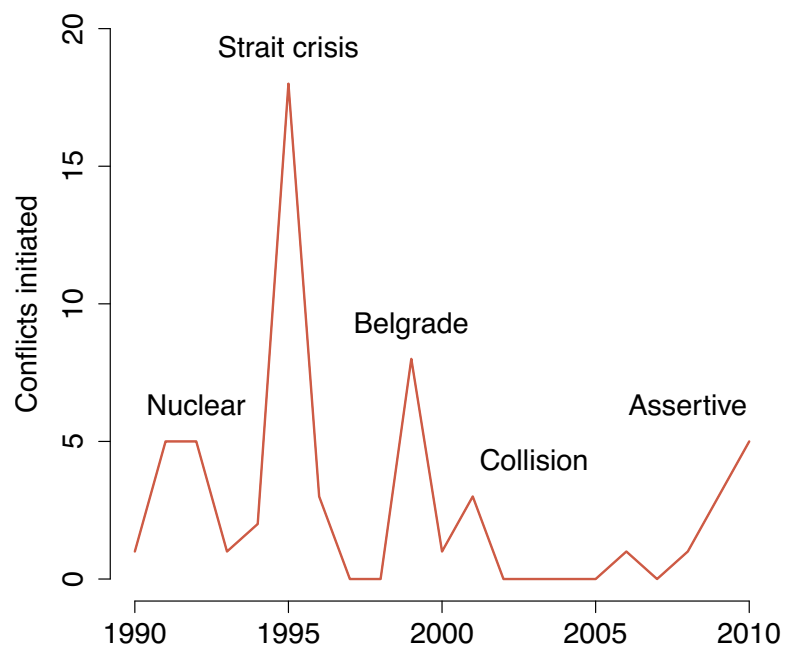
of the event and its *source*. Because Taiwan, Tibet, and Chinese dissidents are salient in the bilateral relationship, I record American cooperation with these actors as conflict with China (and vice versa).

The primary outcome variable in this study is *Chinese conflict initiation*, which is substantive bilateral conflict in military, diplomatic, economic, or human rights areas. Figure 2.1 visualizes the outcome variable since 1990. The red line shows the number of conflicts that China initiated with the United States each year. The dataset records 171 episodes of conflict that occurred in 58 months.²⁰ The measure has high construct validity: conflict peaked during the standoff at sea over chemical weapons proliferation in 1993, the 1995 Taiwan Strait crisis, the 1999 accidental US bombing of the Chinese embassy in Belgrade, the 2001 collision between a Chinese fighter jet and a US spy plane, and China’s “assertive” behavior in 2010.²¹

²⁰Episodes of conflict are, unsurprisingly, clustered.

²¹While some of these crises were exogenous, like the Belgrade bombing or the aircraft collision, the results

Figure 2.1: Chinese Conflict Initiation Toward US



I eschewed existing event datasets for straightforward reasons. The popular Militarized Interstate Dispute dataset records only three US-China conflicts since 1990—one involving the 1995 Taiwan Strait Crisis and two involving the 2001 spy plane collision. In reality, there have been many episodes of serious contention over this period—most prominently, a standoff at sea over nuclear proliferation in 1993, the accidental US bombing of the Chinese embassy in Belgrade in 1999, and China’s assertive behavior in 2010.

Daily event datasets such as GDELT or Gary King’s “10 million events” record bilateral disputes with much greater frequency, but with tremendous noise. By my estimation, 20-30% of these events are false positives or false negatives: respectively, events that were omitted by the automated event coding process and events that were included mistakenly. Additionally, I identified many more diplomatic action types than recorded in standard event ontologies like Conflict and Mediation Event Observations (CAMEO). Existing ontologies were constructed from news wires, which omit some important types of diplomatic interaction. Examples include: demurring, canceling an invitation, postponing talks, expressing restraint, passing a congressional resolution, or offering asylum to a dissident.

Moreover, much diplomacy takes place out of the public eye and is captured only in policymaker accounts. For example, China allowed dissidents to quietly emigrate to the United States, sent diplomats to Pyongyang to pressure North Korea on US policy priorities, and agreed to the US request to not dump treasury bonds in the wake of the 2008 financial crisis. Omissions are also considerable for classified military interactions. For example, China has occasionally initiated aggressive aircraft tails and submarine dogfights. These episodes are highly significant, but appear only in policymaker memoirs or declassified documents. By hand coding some 10,000 pages of historical documents, my original dataset is the most complete account of the bilateral relationship since 1990.

are not driven by exogenous shocks to international politics. Theoretically, although an exogenous crisis may occur, a state’s response to it is conditional on many things, including domestic politics. Moreover, many of the conflicts that China initiated in the dataset were not associated with exogenous crises. This is shown in Figure C.1 in the appendix, which reproduces Figure 2.1 at the monthly level.

2.3.2 Measuring Elite Transfers

As in the post-Soviet states, the privatization of state owned enterprises (SOEs) in China became a convenient way for the autocrat to transfer rents to elites in the 1990s. Privatization created three streams of transfers to elites. First, the Party set artificially low share prices for SOE initial public offerings (IPOs). It appointed chosen elites to SOEs and offered management buyout provisions to ensure they would benefit from arbitrage. As a result, high-level officials and their families were “among the biggest beneficiaries” of management buyout provisions.²² “About 10 or 15 years ago,” Gu Xuewu comments, “those in power sold many state-owned companies to people who were close to them. At a very low price.”²³

The shares retained by elites after an IPO generated dividends. But most importantly, the Party employed corporate financing arrangements to allow elites to benefit from subsequent arbitrage opportunities. SOEs provide 40-50% of the financing for the IPOs of other SOEs. The Party appoints “strategic investors” and therefore controls access to arbitrage opportunities. For example, China Unicom’s IPO was financed by strategic investors with few ties to the communications industry: Beijing Capital Airport Group, Shanghai Auto, Sinochem, and COFCO Foods, a food distributor.

More, the Party has repeatedly intervened to restore elite transfers when they have declined. After a policy announcement depressed returns in 2001, the Party canceled the policy in question, established an investor protection fund, halted IPOs, increased foreign investment quotas, and raised interest rates on bank loans. In September 2004, Premier Wen Jiabao pledged that the state would support the stock market. In December 2005, he declared the financial sector “critical to national security.”²⁴ Most recently, after the Shanghai Exchange lost a third of its value in June 2015, the state spent over a trillion

²²He Qinglian (2015).

²³Rimmele (2012).

²⁴Walter and Howie (2006, xvii-xi).

US dollars trying to stabilize the market. Indeed, its liquidity provision efforts were so vast that it was forced to devalue the renminbi in August for the first time in two decades. Generations of American policymakers considered that goal practically unattainable. China devalued again only a few weeks later.

Because of this precedent, elites hold the autocrat responsible for stock returns. The state has provided an “implicit guarantee to prop up the market,” according to economist Barry Naughton.²⁵ Leaked cables reveal that in August 2007, a Chinese financial researcher told American embassy personnel that the Shanghai Exchange was a “policy market” “controlled by the central government and subject to political tinkering.” First and foremost, the Party aimed “to maintain a ‘Harmonious Society’ among the retail investors.” What this meant was that “the government wanted to avoid getting blamed for any negative outcomes from its policy.”²⁶ One Western analyst concluded that “There’s an expectation of the government adjusting policy to suit the market, in a cheerleading fashion.”²⁷ A Chinese equity analyst said, “We just calmly wait for the government’s next step to see if there will be more positive incentives to invest.”²⁸

In contrast, stock returns have virtually no relationship with public welfare. This is evident from two facts. First, contrary to some reporting in the popular financial press, there are very few retail investors in China. Economists estimate there are between 500,000 and 2 million active investors.²⁹ The estimate is conservative because many brokers operate hundreds of illegal “ghost accounts” opened with villagers’ identification cards purchased in the countryside. In short, between 0.001% to 0.1% of China’s population invests in its securities market: an extremely small proportion of the population.

Second, although SOEs account for nearly 30% of urban employment, urban employment

²⁵Naughton (2007, 474).

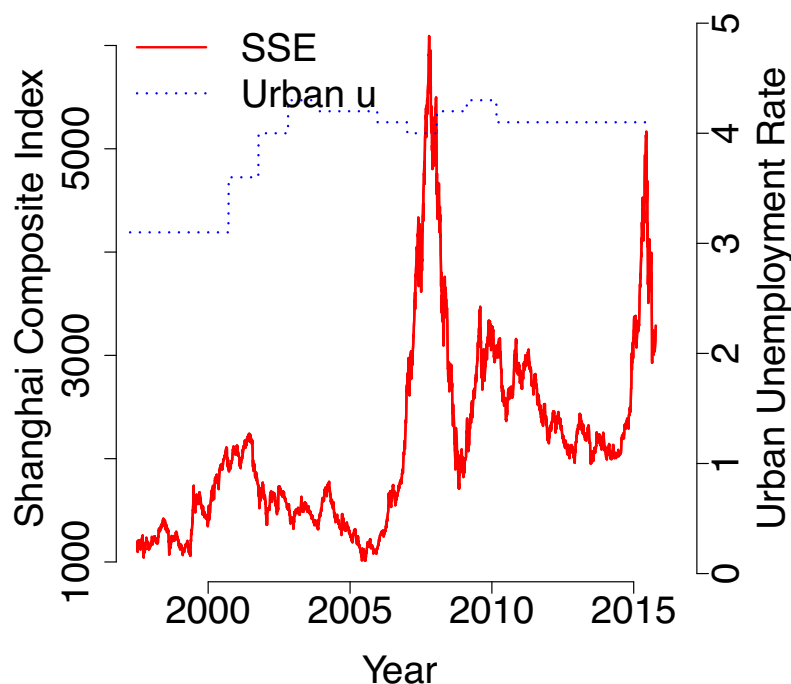
²⁶US Embassy Beijing (2007b).

²⁷Deng (2015).

²⁸Walter and Howie (2006, 219).

²⁹See Walter and Howie (2006, p. 10 and Ch. 7) for a fascinating account. Green (2003) cites similar statistics.

Figure 2.2: Stock Returns and Urban Unemployment



Annual urban unemployment data are from China's National Bureau of Statistics.

is not sensitive to SOE stock market performance. SOE employment is centrally regulated due to the legacy of “iron rice bowl” welfare policies. The Party does not allow SOEs to engage in mass layoffs during downturns. Figure 2.2 shows that there is virtually no relationship between stock returns and urban unemployment.

Today, SOEs account for 40% of China's GDP and the vast majority of its equity market: 65% of firms and 89% of market capitalization.³⁰ Stock returns are extraordinarily volatile. The worst month on the Shanghai Exchange lost 31% while the best month gained 177%.³¹

³⁰Pei (2012, 34), Piotroski and Wong (2012, 219).

³¹Why would the autocrat choose to deliver rents through such a volatile mechanism? Only the least significant stream of rents—dividends—is affected by volatility. For IPOs and corporate financing, the regime selects which elites benefit and sets initial share prices. If the stock market is performing poorly, the regime can simply set initial share prices lower than usual, enabling more arbitrage.

Average monthly returns were 2% with a standard deviation of 17 percentage points. In contrast, S&P 500 returns during the period were much less volatile, ranging from losses of 20% to gains of 12%.

2.3.3 Evidence for diversion

The first hypothesis suggests the autocrat will initiate more conflict with the United States when elite transfers decline. To test this hypothesis I explore the impact of the percentage change in the Shanghai Stock Exchange in month $t - 1$ on the number of conflicts that China initiates toward the United States in month t . Conflict data are drawn from my bilateral event dataset. The monthly percent change in the SSE composite index is drawn from the exchange.³²

I employ a count model to examine Chinese conflict initiation as a function of stock market performance, recent bilateral interaction, and other covariates. To control for popular dissatisfaction, I include monthly *consumer price inflation*.³³ I control for the six month period leading up to a *party congress*, as these events are the focal point of Chinese elite politics and often result in the announcement of new policies that could simultaneously affect stock returns and conflict initiation. Party congresses are held every fifth autumn. To account for the possibility that financial crises migrate across borders, I include *US stock market returns*.³⁴ It is important to include this variable because Dow losses might simultaneously depress the Shanghai Stock Exchange and generate Chinese critiques of US economic policy. Finally, I include year and month fixed effects to account for unobserved sources of variation (e.g., if Beijing initiates more conflict in October due to National Day

³²Shanghai Stock Exchange (2015). The composite index is analogous to the S&P 500. In 2010, the exchange also began reporting data for the SOE 50 and SOE 100 indices, which track the performance of the 50- and 100-largest SOEs, respectively. These indices are almost perfectly correlated with the composite index over 2010-2015, as shown in Appendix C. This is to be expected, as SOEs account for 89% of market capitalization. I use the Composite Index in the analysis because it is available for a wider time frame.

³³Neither *Unemployment* nor *GDP growth* can be used to measure public economic interests, as they were recorded annually for most of the sample and exhibited relatively little variation.

³⁴Data on monthly S&P 500 returns are drawn from Standard and Poor (2013).

celebrations). The estimating equation is thus

$$\begin{aligned}
\text{neg bin (PRC conflict)}_t = & \beta_1(\Delta SSE)_{t-1} \\
& + \beta_2(\text{Number of PRC-USA conflicts})_{t-1} \\
& + \beta_3(\text{Number of USA-PRC conflicts})_{t-1} \\
& + \beta_4(\text{PRC consumer price inflation})_{t-1} \\
& + \beta_6(\text{Party Congress})_{t:t-6} \\
& + \beta_8(\Delta \text{S\&P 500})_{t-1} \\
& + \gamma_y + \lambda_t + \epsilon
\end{aligned} \tag{2.1}$$

where γ_y represents year fixed effects and λ_t represents month fixed effects. Augmented Dickey-Fuller tests indicate that Chinese conflict initiation and SSE returns are stationary. A one month lag minimizes the Akaike information criterion (AIC).

Results appear in Table 2.3. Model (1) shows that SSE returns are inversely correlated with Chinese conflict initiation in a bivariate context. The relationship is robust to the introduction of recent bilateral interactions in Model (2), Chinese domestic factors in Model (3), US stock returns in Model (4), and year and month fixed effects in Models (5-6).

The results are visualized in Figure 2.3. I simulate values of predicted Chinese conflict initiation at various levels of SSE returns: the mean monthly return of 2% and at losses of 5%, 10%, and 15%. Other variables are held at their means. For ease of simulation, I employ Model (4), which contains all control variables save year and month fixed effects, yet is quite similar to Models (5-6) which do employ fixed effects.

The simulation indicates that when stock returns decline by 5% to 15%, China initiates 1.5 to 2 times as much conflict as usual. Since 1990, China has initiated one conflict every ten months, on average. When a negative shock occurs, China initiates one conflict every three to five months. Therefore, as much as 40% of China's conflict initiation may be diversionary.

Losses of 5% to 15% are not atypical in the Chinese context. Figure 2.4 shows a kernel

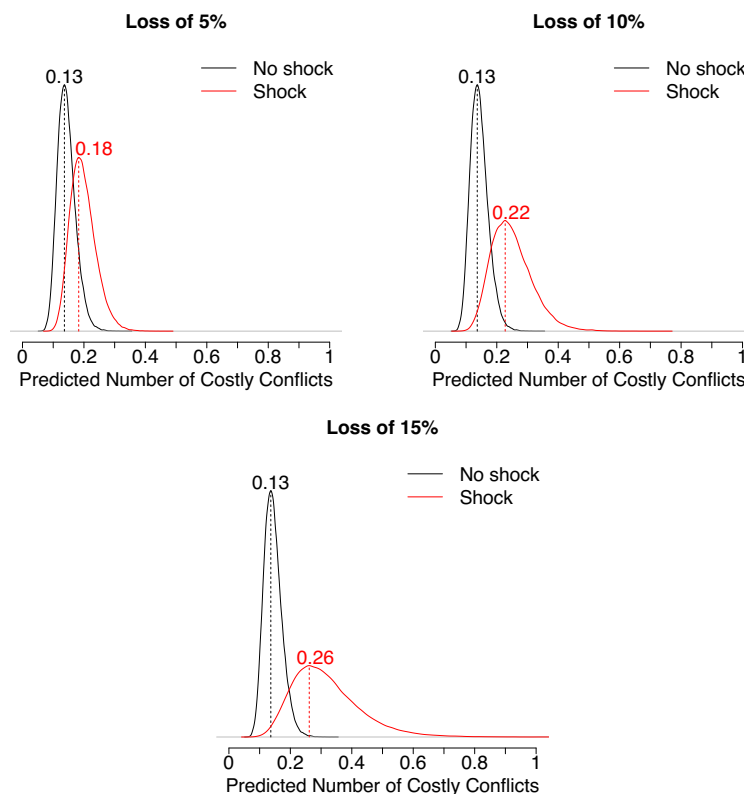
Table 2.3: Evidence for Diversion

	<i>Dependent variable:</i>					
	PRC conflict _t					
	(1)	(2)	(3)	(4)	(5)	(6)
ΔSSE_{t-1}	-3.933* (2.194)	-5.047** (2.254)	-4.756** (2.244)	-4.771** (2.260)	-4.216** (2.108)	-4.535** (2.142)
PRC conflict _{t-1}		0.353 (0.225)	0.215 (0.212)	0.198 (0.208)	-0.072 (0.193)	0.059 (0.192)
USA conflict _{t-1}		0.201 (0.377)	0.075 (0.346)	0.081 (0.340)	0.113 (0.305)	-0.033 (0.298)
CPI _{t-1}			0.041 (0.029)	0.040 (0.028)	-0.003 (0.091)	-0.002 (0.090)
Party Congress _{t:t-6}			-2.331* (1.269)	-2.159* (1.227)	-1.151 (1.461)	-1.609 (1.513)
$\Delta \text{S\&P500}_{t-1}$				0.095 (0.062)	0.038 (0.061)	0.021 (0.055)
Constant	-1.682*** (0.219)	-1.851*** (0.234)	-5.890* (3.054)	-5.852* (3.007)	-0.670 (9.593)	-32.687 (4,037,414)†
Year fixed effects	No	No	No	No	Yes	Yes
Month fixed effects	No	No	No	No	No	Yes
Observations	288	288	240	240	240	240
Log Likelihood	-133.165	-131.545	-119.982	-118.849	-100.239	-91.592
Akaike Inf. Crit.	270.329	271.091	251.965	251.698	254.477	259.183

*p<0.1; **p<0.05; ***p<0.01

† In Model (6), the standard error for the constant is very large because after including month fixed effects, there is not enough variation to generate a meaningful estimate for the constant. This does not affect the interpretation of the other coefficients in the model.

Figure 2.3: SSE Shocks and Chinese Conflict Initiation

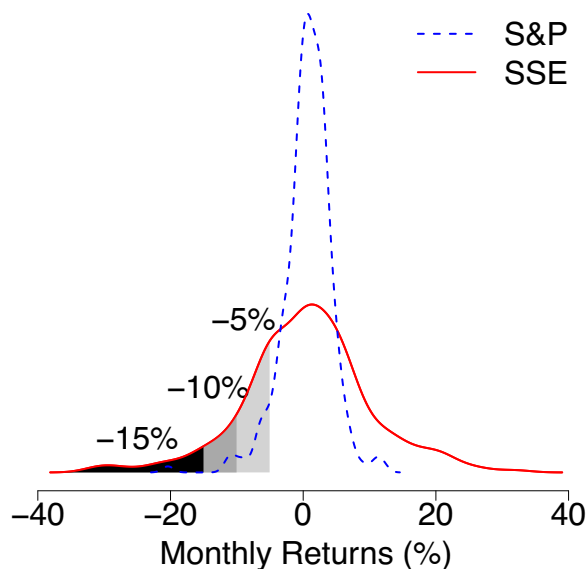


density plot of monthly SSE returns since 1990 in red. For comparison, monthly S&P 500 returns since 1990 are shown in blue. S&P 500 returns are normally distributed. However, SSE returns are characterized by an abundance of extremely positive and extremely negative returns. Indeed, as shown by the shaded areas, the SSE lost 5% or more of its value in a *quarter* of months. Overall, the evidence suggests that China's conflict behavior is extremely responsive to SSE downturns, which occur regularly. More, there is no evidence that Chinese foreign policy responds to one plausible indicator of public interests, inflation.

Robustness Checks

Results are robust to several different approaches presented in Appendix C. First, results are robust to placebo tests. Above, elite transfers are operationalized as a continuous variable. Instead, in Tables C.1 and Tables C.2 I operationalize them as dichotomous shocks

Figure 2.4: Kernel Density Plot of SSE Returns



of $\pm 5\%$, 10% , or 15% . Negative shocks are associated with conflict but not with cooperation. Positive shocks are associated with neither outcome. Indeed, this is what one should expect: the theory describes how declining transfers lead the autocrat to employ diversionary foreign policy, but proffers no reasons why ample transfers would make the autocrat pursue a more cooperative foreign policy with the United States.

Second, results are robust to subsetting the data to make reverse causality as unlikely as possible. In the research design above, reverse causality would be a problem if investors anticipated conflict and withdrew from the market before it occurred. If investors had this anticipatory power, declines in share prices caused by sell offs would precede conflict and render the result spurious.

Investors can anticipate conflict in two ways. First is through conflict in the previous period, which is already in the model. Second is through China's statements about its future behavior. If China threatens to initiate conflict in the next period, investors might exit the market. Therefore I record all Chinese threats toward the United States. I include private

threats in addition to public threats, since rumors about diplomatic developments could conceivably spread through the small group of Chinese political elites. China issued 16 such threats in 13 months between 1990 and 2010. Table C.3 shows that the result is robust to dropping observations in which China threatened the United States privately or publicly in $t - 1$.

Investors might also decide to sell based on American threats toward China, which occurred 24 times (publicly or privately) between 1990 and 2010. The result is robust to dropping observations in which either side threatened the other in $t - 1$.³⁵ Thus, the relationship between elite transfers and conflict initiation persists even when investors have virtually no information with which to anticipate future conflict. This suggests the result is not driven by an informational omitted variable which enables investors to anticipate bilateral conflict and dump stocks before it occurs.

Third, results are robust to operationalizing the outcome variable differently. Conflict rarely occurs, and when it does, its importance may be dwarfed by the volume of cooperation in other areas. Therefore I develop a measure of *Net conflict* to capture the bilateral relationship's overall tendency:

$$(\text{Net conflict})_t = \frac{(\text{conflict} + \text{criticism})_t}{(\text{conflict} + \text{criticism} + \text{cooperation} + \text{diplomacy})_t} \quad (2.2)$$

While this measure may capture the overall tenor of the bilateral relationship better than a simple count of conflict, it yields fewer observations for analysis because months with zero events prompt division by zero and fall out of the model. ADF tests indicate the new outcome variable is stationary and a one month lag minimizes the AIC. An OLS model is appropriate. Table C.4 shows that the result is robust. When elite transfers decline, the overall relationship becomes more conflictual.

Fourth, results are robust to additional control variables. I include a dummy variable for

³⁵This more restrictive model entails dropping 26 months (since the United States and China sometimes threatened each other in the same month).

NPC Meetings, the National People’s Congress and Chinese People’s Political Consultative Conference meetings that occur each March. These meetings are far less important than party congresses, but nonetheless could plausibly affect China’s foreign policy. Next, I control for whether a given month experienced a *popular crisis*. Crises like corruption scandals, large protests, sensitive anniversaries, natural disasters, epidemics, and product safety scandals increase public dissatisfaction with the regime. The *popular crisis* variable is thus much like inflation in the main analysis: if the autocrat diverts for public interests rather than elite interests, this variable should be significant, and should cast doubt upon the theory. A list of popular crises appears in Table C.5. Finally, I control for elites’ other main source of illicit wealth. While the stock market has been the primary vehicle of elite transfers in contemporary China, elites have access to other rents. Construction bribes are the most important among these. When companies break ground on new facilities, they are expected to bribe officials. Results are robust to approximating bribe volume with monthly changes in *new floorspace construction*. This model is temporally limited, however, because floorspace construction data are only available from China’s National Bureau of Statistics since 2002.³⁶ Results are robust to the inclusion of all additional covariates, as shown in Table C.4.

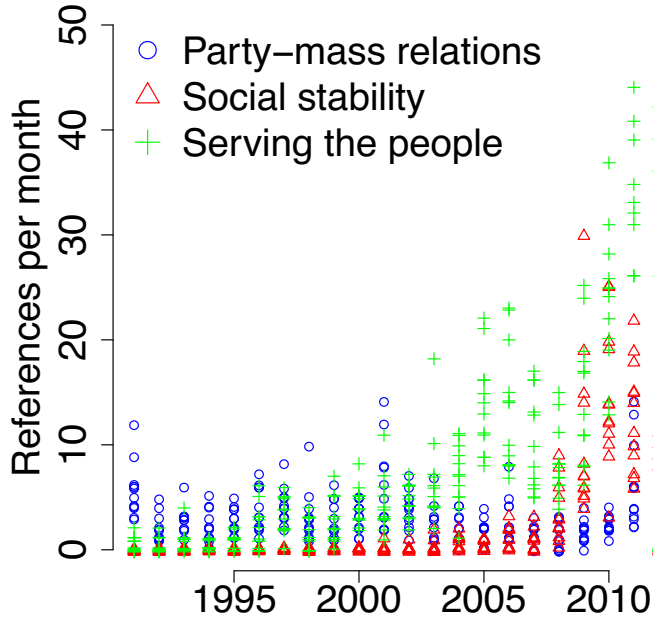
2.3.4 Propaganda

The Chinese autocrat enjoys direct control over the official newspaper, the *People’s Daily*.³⁷ The third hypothesis argues that because diversion aims to discourage leadership

³⁶More fundamentally, I exclude construction bribes from the main analysis for theoretical reasons. Elites hold the autocrat responsible for stock market rents because of his interventionist precedent, however, they cannot reasonably hold him accountable for construction bribes paid by individuals.

³⁷Mao, for example, personally revised draft editorials. In the 1990s, Jiang Zemin launched an initiative to “guide public opinion” with tighter reporting controls and the Patriotic Education Campaign, which revised curricula and encouraged “red tourism” to foster loyal citizens. In the 2000s, Hu Jintao spearheaded a revised program to “channel public opinion.” In the 2010s Xi Jinping elevated the effort to a “struggle for public opinion” in the face of robust online political discussion (Qian Gang 2013). These pressures are only intensifying. In 2013, Xi called for a “strong army” to “seize the ground of new media” (Huang and Zhai 2013). Scholars find that China employs online propagandists to delete posts about collective action (King, Pan, and Roberts 2013).

Figure 2.5: Propaganda



challenges, propaganda should emphasize the leader’s popularity when elite transfers decline. To test this hypothesis, I gathered the corpus of nearly 4,000 articles containing the phrases “party-mass relations” (*dangqun guanxi*), “social stability” (*weiwen*), and “serving the masses” (*fuwu qunzhong*) published by the *People’s Daily* between 1990 and 2012. These terms have been identified as important in the secondary literature and feature prominently in the newspaper.³⁸

Figure 2.5 shows the temporal popularity of these terms. Discussion of party-mass relations has held constant—about 5 articles per month—over the period. In the 2000s, discussion of “serving the masses” rose exponentially, from 5 to 50 articles per month. Discussion of “social stability” also increased over the period.

I formatted these documents for text analysis in the programming language Python. Be-

³⁸Zhang Yong (2000); Stern and O’Brien (2012).

cause “party-mass relations” is a neutral term, I used the concordance method, which records the share of positive words in the ten words on either side of the term.³⁹ I computed the percentage of positive words in all concordance segments published each month.⁴⁰ Because “serving the masses” and “social stability” are normatively charged terms, I simply recorded the frequency with which they were mentioned each month.

I model propaganda as a function of bilateral events and domestic factors. The estimating equation is identical to that in Section 2.3.3 save two changes. The outcome variable is the number of references to a given term in month t . I control for the number of references to the term in $t - 1$. When the outcome is positive coverage of “party-mass relations,” I employ an OLS model with the same covariates.

Table 2.4 presents the results. The evidence suggests that declining transfers are associated with more positive coverage of “party-mass relations” and more frequent discussion of “serving the masses” and “social stability.” The results are visualized in Figure 2.6. When transfers decline by 10%, the propaganda apparatus publishes 11% more on “serving the people,” 20% more on “social stability,” and discusses “party-mass relations” 8% more positively. All results are significant at the 95% level.

Overall, the results suggest that declining transfers compel propaganda about how the autocrat serves the masses and is supported by them. Propaganda may improve public assessments of the regime because many Chinese citizens are nationalist. But also, because elites *believe* citizens are nationalist, propaganda will lead them to update their assessment of public support for the regime.

2.3.5 Diversion in the public eye

However, when the autocrat is motivated by the desire for public support, he will employ foreign policy that is observable to the public and which will generate a nationalist rally. These policies will take *military* forms—such as announcing weapons systems, proliferating,

³⁹Results are robust to using the 5 or 20 words on either side of the term.

⁴⁰Dong and Dong (2015).

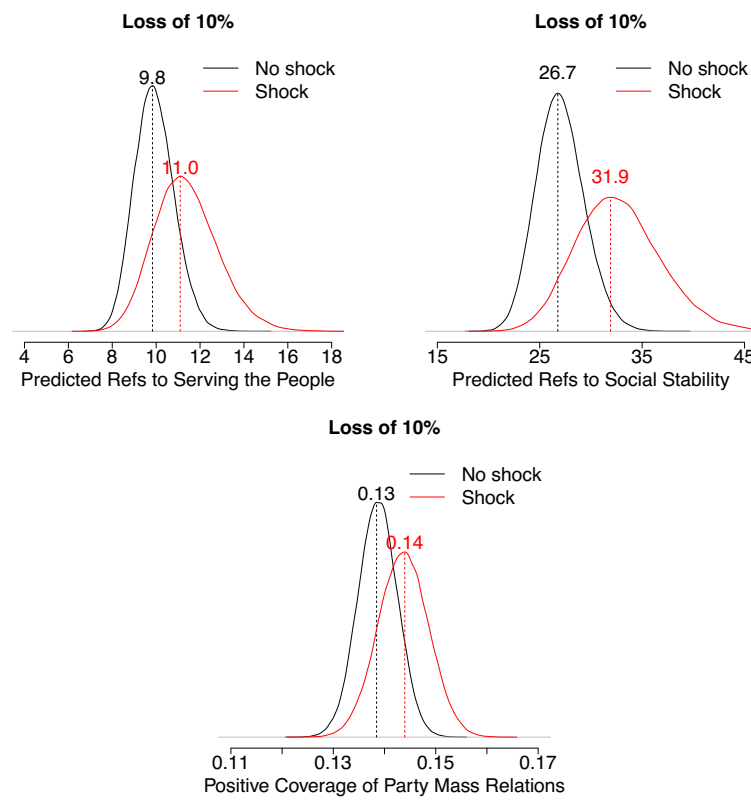
Table 2.4: Propaganda Model

	<i>Dependent variable:</i>		
	Positive relations _t	Refs to serving _t	Refs to stability _t
	<i>OLS</i>	<i>negbin</i>	
	(1)	(2)	(3)
$\Delta \text{ SSE}_{t-1}$	-0.053** (0.025)	-1.090** (0.444)	-1.004** (0.409)
Positive coverage _{t-1}	0.001 (0.075)		
Number of references _{t-1}		0.014*** (0.001)	0.002 (0.002)
PRC conflict _{t-1}	-0.002 (0.006)	-0.099 (0.088)	0.026 (0.072)
USA conflict _{t-1}	-0.007 (0.007)	-0.400*** (0.134)	-0.169 (0.110)
CPI _{t-1}	0.003 (0.002)	-0.065*** (0.010)	0.005 (0.034)
Popular crises _{t-1}	0.028 (0.019)	0.457** (0.212)	0.079 (0.211)
Party Congress _{t:t-6}	-0.017 (0.016)	-0.152 (0.186)	0.032 (0.186)
Lianghui _{t-1}	-0.010 (0.014)	0.159 (0.216)	0.188 (0.188)
$\Delta \text{ S\&P500}_{t-1}$	0.002* (0.001)	-0.018 (0.016)	0.021 (0.015)
Constant	-0.203 (0.240)	8.564*** (1.081)	0.437 (3.561)
Year fixed effects	Yes	No	No
Month fixed effects	Yes	No	No
Observations	199	240	240
R ²	0.178		
Adjusted R ²	0.038		
Log Likelihood		-804.260	-979.913
Akaike Inf. Crit.		1,628.520	2,019.827

Note:

*p<0.1; **p<0.05; ***p<0.01

Figure 2.6: SSE Shocks and Chinese Propaganda



or initiating exercises or conflicts—or high profile *diplomatic* forms—such as obstructing American initiatives, withdrawing support, canceling exchanges, or downgrading the relationship. Diversion will not occur in low politics. Issues like WTO negotiations, though important, are unlikely to arouse nationalist sentiment. Nor will diversion involve *human rights* issues. Human rights cases are important to the United States, but they are often negotiated privately. Moreover, Chinese citizens may not view punishing the United States on human rights issues as a compelling defense of national interests.

Table 2.5 reproduces the analysis in Section 2.3.3 but disaggregates Chinese conflict initiation into military, diplomatic, economic, and human rights areas. Models (1-4) show that diversion occurs in military and diplomatic affairs but not in economics or human rights. Figure 2.7 visualizes the results. Overall, the newsworthy character of Chinese conflict initiation suggests it targets nationalist citizens rather than American interests.

Conflict initiation can be further disaggregated into *moderate* and *severe* levels. From Table 2.1, moderate conflict includes obstructing American policies, withdrawing support, canceling exchanges, punitive economic actions, congressional actions, infringing upon human rights, inciting protests, and arresting the other country's nationals. In contrast, severe conflict includes selling arms to Taiwan, espionage, developing weapons systems, asserting territorial claims, proliferating, downgrading the relationship, conducting military exercises, and engaging in armed conflict.

Models (5-6) show that declining transfers generate severe conflict rather than moderate conflict. Figure 2.8 visualizes the results. This supports my theoretical expectations: Severe conflict is especially likely to generate a rally because it sharpens ingroup-outgroup differences.

2.3.6 Unlearning diversion

The final hypothesis contends that to avoid containment, the autocrat should help the United States unlearn the lessons of diversion. Chinese leaders have long been wary of provoking American containment. Partly because many American politicians believe that

Table 2.5: Issue Area Model

	<i>Dependent variable:</i>					
	Mil conflict _t (1)	Dip conflict _t (2)	Econ conflict _t (3)	Rights conflict _t (4)	Moderate _t (5)	Severe _t (6)
ΔSSE_{t-1}	-5.911** (2.886)	-10.836** (5.143)	4.358 (8.949)	4.220 (4.933)	-0.121 (1.006)	-5.639** (2.824)
PRC conflict _{t-1}	0.032 (0.352)	-0.600 (0.446)	-0.569 (1.498)	0.130 (0.300)	-0.269 (0.192)	0.068 (0.326)
USA conflict _{t-1}	0.039 (0.389)	2.120* (1.106)	0.856 (0.996)	-0.488 (0.846)	0.482 (0.299)	0.011 (0.390)
CPI _{t-1}	0.091 (0.133)	0.056 (0.134)	-0.219 (0.464)	-0.106 (0.137)	-0.037 (0.090)	0.082 (0.129)
Party Congress _{t,t-6}	-0.590 (1.467)	-29.032 (2,278,143)	-20.493 (25,882)	0.596 (8,871,994)	-36.707 (14,069,841)	-0.590 (1.452)
Lianghui _{t-1}	0.619 (0.854)	-28.566 (2,961,496)	-21.185 (28,212)	0.030 (1.371)	-1.314 (1.129)	0.557 (0.833)
$\Delta \text{S\&P500}_{t-1}$	-0.041 (0.096)	-0.064 (0.151)	0.358* (0.186)	-0.074 (0.128)	0.072 (0.071)	-0.065 (0.090)
Constant	-11.080 (14.034)	-42.185 (10,583,370)	18.097 (47.493)	8.585 (14.379)	2.661 (9.465)	-10.165 (13.616)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Month fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	240	240	240	240	240	240
Log Likelihood	-41.546	-28.236	-10.056	-23.772	-91.516	-43.773
Akaike Inf. Crit.	141.092	114.472	78.112	105.544	241.032	145.546

Note: *p<0.1; **p<0.05; ***p<0.01

Figure 2.7: SSE Shocks and Chinese Conflict by Issue Area

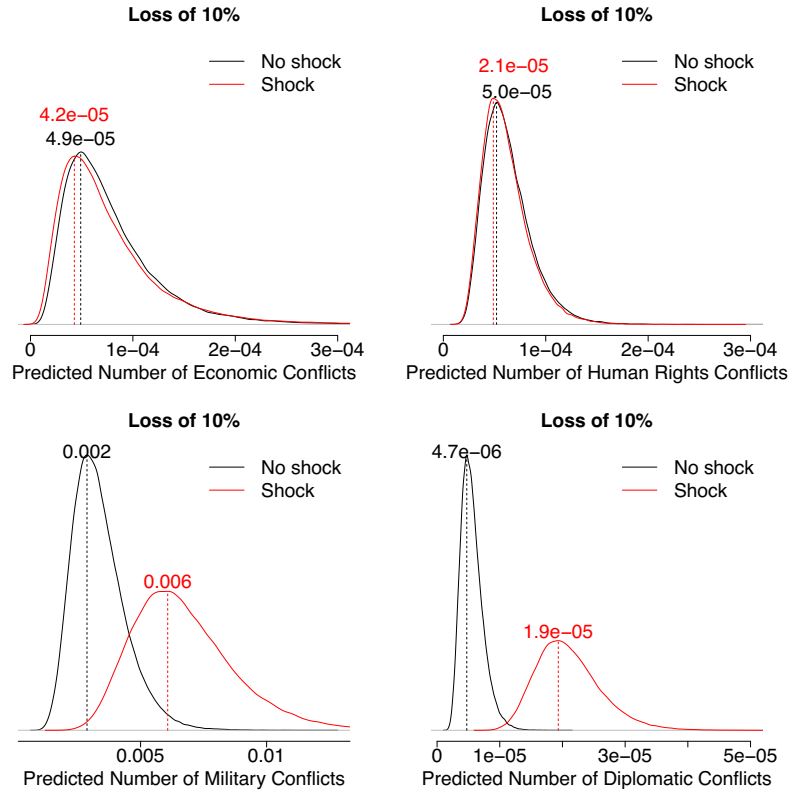
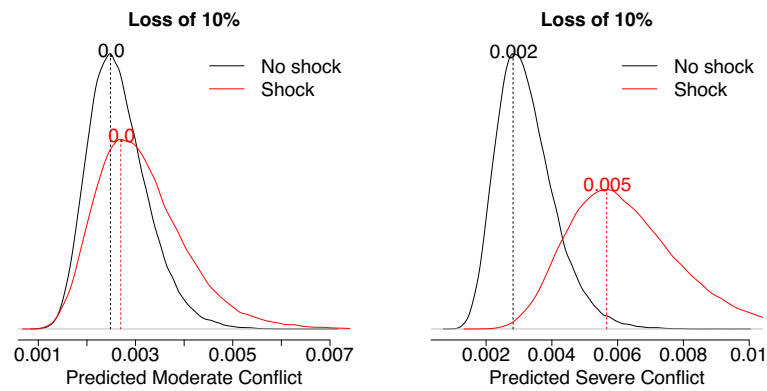


Figure 2.8: SSE Shocks and Chinese Conflict by Severity Level



China aims to challenge American hegemony, Chinese leaders have been meticulous about presenting their country’s rise as peaceful. After China held military exercises in the Taiwan Strait in 1995, Vice Minister of Foreign Affairs Liu Huaqiu traveled to Washington and told National Security Adviser Anthony Lake that the exercises “were normal and no threat to the United States.”⁴¹ In January 2007, China conducted a missile test that destroyed a weather satellite and created the largest collection of space debris in history. The American response was stern. “It wasn’t clear what their intent was,” said General Peter Pace. “When the intent isn’t clear, and when there are surprises and you confuse people, you raise suspicions.”⁴² When China conducted another test three years later, *Xinhua* announced the exercise the day it was conducted and described it as “defensive in nature.” The following day, the Ministry of Foreign Affairs repeated the assurance and added that the test did not create any debris.⁴³ These examples illustrate that when the United States becomes suspicious of Chinese motives, Beijing often employs reassurance behavior. They make clear that China is sensitive to American perceptions.

To assess the hypothesis that China employs diplomacy to recenter American perceptions after diverting, I examine whether conflict in month $t - 1$ is associated with cooperation in month t , *conditional* on a negative transfer shock occurring in month $t - 2$. That is, I subset the dataset to observations characterized by decline in transfers of at least 5% in $t - 2$. This allows me to examine the impact of specifically *diversionary* conflict upon the autocrat’s propensity to initiate verbal or substantive cooperation in the next period:

$$\frac{\partial \text{PRC Cooperation}_t}{\partial \text{PRC Conflict}_{t-1}} \bigg|_{\Delta \text{SSE}_{t-2} \leq -0.05}$$

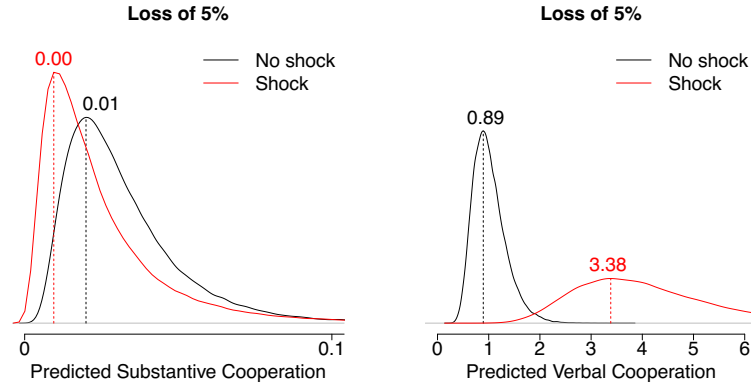
Because the analysis now spans three months, I included lagged variables in $t - 1$ and

⁴¹Suettinger (2003, 254).

⁴²Mulvenon (2007, 5).

⁴³Mulvenon (2010, 1-2).

Figure 2.9: Post-Diversion Cooperation



The data are subset to simulate the effect of conflict in t on cooperation in $t + 1$ conditional on a negative transfer shock occurring in $t - 1$.

$t - 2$. I also introduce the interaction term $\Delta \text{SSE}_{t-2} \times \text{PRC conflict}_{t-1}$, which captures the additional degree to which conflict is diversionary beyond the 5% decline stipulated by the subset.

Table 2.6 presents the results and Figure 2.9 visualizes them. Conditional on a negative transfer shock, conflict is associated with verbal cooperation the following month. It is not associated with substantive cooperation the following month. This suggests that the autocrat employs a verbal charm offensive to recenter American perceptions after diverting. However, he does not employ public forms of cooperation that might be penalized by his domestic audience.

2.4 Case Study

2.4.1 Summary

There is little direct evidence of diversionary aggression in the scholarly literature, since leaders who employ it would never actually admit it. Indeed, admitting that conflict is diversionary would undermine its objective. In this respect, China's bilateral relationship with the United States constitutes a particularly attractive case study. For the WikiLeaks

Table 2.6: Unlearning Diversion

	<i>Dependent variable:</i>		
	PRC cooperation _t	PRC diplomacy _t	
	(1)	(2)	(3)
ΔSSE_{t-1}	3.908 (4.212)	0.048 (6.073)	-3.244 (4.648)
PRC conflict _{t-1}	-0.263 (0.196)	0.555** (0.229)	1.225*** (0.420)
USA conflict _{t-1}	0.395 (0.466)	-0.233 (0.435)	-1.426** (0.580)
CPI _{t-1}	0.097*** (0.026)	0.036 (0.036)	0.033 (0.043)
Popular crises _{t-1}	-0.001 (1.147)	0.215 (0.607)	0.133 (0.694)
Party Congress _{t:t-6}	2.414** (0.973)	1.570** (0.634)	1.961*** (0.469)
Lianghui _{t-1}	-36.160*** (0.495)	-0.968* (0.569)	-0.773 (0.878)
$\Delta \text{S\&P500}_{t-1}$	0.108 (0.118)	-0.036 (0.065)	-0.105** (0.052)
ΔSSE_{t-2}			4.199** (2.072)
PRC conflict _{t-2}			-0.185 (0.166)
USA conflict _{t-2}			-0.484 (0.653)
$\Delta \text{SSE}_{t-2} \times \text{PRC conflict}_{t-1}$			8.646*** (1.653)
Constant	-11.982*** (2.986)	-3.693 (3.559)	-3.777 (4.285)
Observations	63	63	63
Log Likelihood	-35.031	-100.403	-96.403
Akaike Inf. Crit.	88.061	218.805	218.806

*p<0.1; **p<0.05; ***p<0.01

Analysis restricted to observations with decline of $\geq 5\%$ in SSE in $t - 2$.

cables that were released in 2010 and 2011 provide an unprecedented opportunity to observe diversionary aggression from primary source documents. And, indeed, one particularly well documented episode in 2010 affirms that diversionary aggression proceeds exactly as the quantitative evidence above suggests.

In the first months of 2010 the Shanghai Exchange plummeted, as shown in Figure 2.10. Meanwhile, GDP growth increased and unemployment declined. As returns fell, China initiated high profile conflicts with the United States. However, China secretly warned the United States to expect aggression over the next few months and that its bellicosity would be temporary. It continued to cooperate with the United States on issues that could be kept private. Propaganda mirrored foreign policy. When the market sustained its steepest losses that spring, the level of social stability propaganda was three times as high as during the rest of the year.⁴⁴ After the stock market stabilized in July, China reassured the United States privately. Through diversion and reassurance, as well as the careful separation of public and private interactions, China was able to navigate its domestic crisis without damaging bilateral relations.

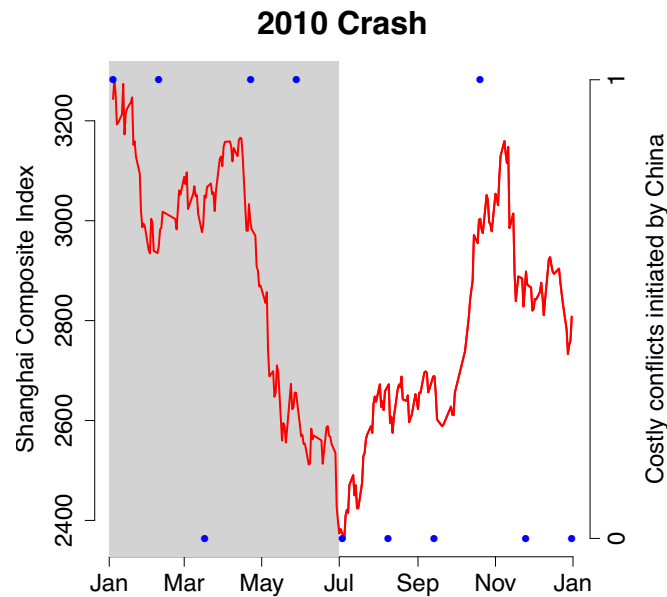
2.4.2 The crash

The Shanghai index faltered in late 2009, but recovered toward the end of the year. In January 2010, Defense Secretary Robert Gates visited Beijing and President Hu visited Washington. Both meetings were considered successful. In late January, the White House announced a \$6 billion Taiwan arms sales package. The package was conservative in comparison to its predecessors and American officials took pains to ensure all equipment “could reasonably be described as ‘defensive’.”⁴⁵ The arms sale was unwelcome but expected by the Chinese. While Ambassador Zhou Wenzhong “relayed Beijing’s anger over the sale,” he “noticed not only what was authorized for sale to Taiwan but also what was not authorized.” Zhou told American officials he “believed that would mitigate Beijing’s reaction.” More, he

⁴⁴Propaganda about serving the people was more volatile, but also peaked that spring.

⁴⁵Gates (2014, 415).

Figure 2.10: 2010 Crash and “Assertive China”



proposed steps to improve bilateral relations. National Security Council senior director for East Asian affairs Jeffrey Bader recalls,

I came out of the breakfast thinking for the first time that Hu would in fact come to Washington for the Nuclear Security Summit, that that event could restore positive momentum to the relationship, and that the damage would be relatively short lived.⁴⁶

Shortly thereafter the Shanghai index began to plummet. Chinese policy changed abruptly. Beijing’s rhetoric over the sale “sharpened considerably,” Bader wrote. In late January, China publicly threatened unusually strong retaliation for the arms sale, including a ban on Boeing, the largest US exporter to China. However, Bader “did not see a serious prospect of the Chinese carrying through on these threats.”⁴⁷ Beijing also made headlines by canceling Secretary Gates’ upcoming visit.⁴⁸

⁴⁶Bader (2012, 73-74).

⁴⁷Bader (2012, 74).

⁴⁸In mid-February, President Obama met with the Dalai Lama. This might seem to be a provocative act

As these troubling events were unfolding, the editor of China's most nationalist state-affiliated newspaper, the *Global Times*, met with American embassy officials in Beijing. Such a high ranking Party member would not have met with American officials without the approval of the Chinese leadership. He told embassy officials "not to be concerned" about China's recent policies. Ambassador John Huntsman cabled a summary of this meeting to Washington:

The Chinese government had a clear vision of China's interests, [the *Global Times* editor] said, and it was most important to maintain a "favorable foreign policy environment" for the government to pursue pressing economic and social development goals at home. A good relationship with the United States was essential, a view he had heard recently expressed by Chinese officials. China's statements criticizing the United States on the Google case, Internet freedom, Taiwan arms sales and the President's planned meeting with the Dalai Lama were all "necessary to satisfy the Chinese people," but China's actions in 2010 would be aimed at preserving China's relationships with the rest of the world. Quoting a Chinese phrase used to describe Deng Xiaoping's strategy for mollifying ideological Communists with socialist rhetoric while pursuing capitalist economic reforms, [the editor] said we should expect China in its 2010 foreign policy to "put on the left turn signal in order to turn right."

Other Party members communicated similar messages in early 2010. A senior fellow at the Chinese Academy of Social Sciences told embassy officials that the Chinese media was "deliberately misleading the public to sell more newspapers." As a result, Huntsman predicted that China would "stomp around and carry a small stick" over the coming months. "This attitude," he told Washington, "has more form than substance and is designed to play to Chinese public opinion."⁴⁹

After sending private assurances, China initiated public conflict. In March, US policy-makers were presented with a "lengthy presentation" on China's rights in the South China

but in fact was not. The Dalai Lama had visited Washington in autumn, but Obama declined to meet with him then to avoid provoking China before President Hu's visit in January. It was the first time an American president had declined to meet with the Dalai Lama since 1991, and it incurred substantial domestic costs for the president. More, the February meeting was held in the White House Map Room—considered part of the presidential residence—rather than the Oval Office. This "was considered by many observers to be a sign of Washington's acknowledgement of Beijing's political sensitivities" (CNN 2010).

⁴⁹US Embassy Beijing (2010).

Sea, newly deemed a “national priority.” On Taiwan, they were presented with a series of “ritualistic demands.”⁵⁰ After the meetings, the Western press deemed Beijing “incensed.”⁵¹ The Chinese press described bilateral relations as “strained” and “at a low point.”⁵² Chinese policymakers told journalists the United States was trying to contain China. Of course, the accusation made Asian headlines.⁵³ In response, a senior Obama administration official told reporters, “With these issues, such as arms sales to Taiwan and meetings with Dalai Lama, there are things said for domestic consumption.”⁵⁴

The claim, however, slid beneath the mounting discussion of bilateral tension. In May, Beijing scuttled an American UN initiative to blame North Korea for the sinking of a South Korean vessel in March.⁵⁵ When Secretary of State Hillary Clinton traveled to Beijing later that month, she claimed that Chinese leaders described the South China Sea to her as a “core interest” and “warned they would not tolerate outside interference.”⁵⁶ Clinton believed the meetings to be a “carefully choreographed summit.” Rear Admiral Guan Youfei, who, she believed, had “gotten at least a tacit go-ahead from his military and party bosses,” “stood up and launched into an angry rant accusing the United States of trying to encircle China and suppress its rise.”⁵⁷ A senior Chinese official told reporters, “It may not have been politically correct, but it wasn’t an accident. ...The army follows the Party. Do you really think that Guan did this unilaterally?”⁵⁸ After the meetings, the Western press concluded the two sides had made “modest progress” on economic issues. In contrast, the Chinese

⁵⁰Bader (2012, 76-77).

⁵¹Wall Street Journal (2010).

⁵²Cheng Guangjin and Tan Yingzi (2010); Yan Feng (2010).

⁵³Huang (2010).

⁵⁴Batson, Poon, and Oster (2010).

⁵⁵Clinton (2014, 56).

⁵⁶Clinton (2014, 76). Other American diplomats did not reportedly hear this claim from Chinese officials, however.

⁵⁷Clinton (2014, 76).

⁵⁸Pomfret (2010b).

press emphasized that Beijing had demanded that Washington “respect its core interests and major concerns.”⁵⁹

In June, China continued to block American efforts to punish North Korea in the United Nations. China watchers concluded “That China is becoming more assertive on many foreign policy issues is widely recognized by both Western and Chinese observers.”⁶⁰ Indeed, discussion of “assertive China” quintupled in US news articles in 2010.⁶¹

More, what cooperation transpired in this period was assiduously kept private. In April, China finally agreed to American requests to work together on an Iran resolution at the United Nations. China had one condition: that it would not announce its assistance publicly.⁶²

2.4.3 The recovery

In July, the stock market reversed course. So too did China’s foreign policy. Conflict subsided. Diplomacy and then cooperation rose. Beijing agreed to support a Security Council statement condemning North Korea. In August, Chinese officials clarified that they “had not authoritatively called the South China Sea a ‘core interest.’”⁶³ In September, China employed “quiet diplomacy” to inform US officials that it “was willing to begin expert talks on a code of conduct in the South China Sea.”⁶⁴

The charm offensive culminated with meetings in Beijing that month. Organization Department Minister Li Yuanchao gave National Security Adviser Tom Donilon a “lengthy personal presentation explaining in detail why China would not challenge the United States

⁵⁹Landler and Wines (2010); Xinhua News Agency (2010).

⁶⁰Swaine (2010, 8).

⁶¹Johnston (2013, 12). This article rebuts ahistorical critiques of Chinese foreign policy as newly assertive in 2010. However, Johnston’s point that Chinese assertiveness is not new does not contradict the thesis advanced here that episodes of assertiveness result from domestic conditions.

⁶²Bader (2012, 78).

⁶³Bader (2012, 106).

⁶⁴Bader (2012, 106).

for global leadership and why there was no inevitable conflict in their interests.” He assured Donilon of China’s “unyielding opposition” to North Korea’s nuclear weapons program. Simultaneously, General Xu Caihou informed American policymakers that China would resume military exchanges with the United States.⁶⁵ Bader recalls,

The Chinese reaction in all the meetings was a steady drumbeat of references to their desire for cooperation with the United States. By the time we left, even Donilon knew the Chinese word for cooperation, *hezuo*, having heard it many times. Little was said about Taiwan and even less about Tibet.⁶⁶

In an October meeting at the Asian defense ministers forum in Hanoi, Defense Minister Liang Guanglie quietly reinvited Secretary Gates to Beijing.⁶⁷ *Xinhua* reported the meeting but not the invitation. Gates met with President Hu in Beijing later that month. In November, President Obama met President Hu at the G20 meeting in Seoul. Shortly thereafter, State Councilor Dai Bingguo traveled to North Korea on the United States’ behalf to warn Pyongyang not to respond to ongoing South Korean military exercises. The assistance went unreported in China. In December, Beijing accepted an outstanding offer for President Hu to visit Washington. The visit in January was successful. Observers noticed the improvement in bilateral relations. In February, Swaine noted that “In recent weeks, Beijing seems to have stepped back from the most strident and activist words and actions of winter 2009-2010.”⁶⁸

2.4.4 Taking stock

This case shows that in 2010, China pursued a foreign policy of diversion and reassurance. That year, Beijing initiated four times as much conflict when elite transfers were falling compared to when they were rising. Social stability propaganda peaked when the

⁶⁵Bader (2012, 116, 118).

⁶⁶Bader (2012, 118).

⁶⁷Gates (2014, 524).

⁶⁸Swaine (2011, 9).

market suffered its steepest declines. While American embassy cables that year routinely attributed China's aggressive foreign policy to domestic problems, they failed to distinguish between mass and elite interests. Certainly, Chinese operatives had few interests in hinting at regime instability by clarifying the contours of leadership struggles. However, the remarkable fact that stocks crashed while employment and GDP growth improved suggests that elite transfers, not popular economic interests, were the source of the aggression that China warned was "necessary to satisfy the Chinese people."⁶⁹

More, patterns in public versus private interaction suggest that Chinese behavior in late 2010 was not regression to the mean. Instead, it was strategic. As elite transfers fell in the first half of the year, Beijing warned American officials to expect diversionary foreign policy. Then it employed diversion and propaganda while continuing to cooperate with the United States privately. Thereafter, it successfully reassured American policymakers once the domestic crisis had passed.

2.5 Conclusion

This study contributes to the literature on autocratic foreign policy by demonstrating that the economic interests of political elites condition autocrats' international behavior. In China, the economic interests of political elites may be responsible for 40% of China's conflict initiation toward the United States. When elite transfers through the Shanghai Stock Exchange decline by 5% to 15%, China initiates 1.5 to 2 times as much conflict as usual the following month. More, Chinese propaganda is most likely to emphasize public support for the autocrat when elite transfers decline, suggesting that the autocrat is principally interested in inoculating himself against elite leadership challenges.

The theory may explain the foreign policy of other autocracies as well. Former ambassador Michael McFaul argues that financial sanctions have diminished Vladimir Putin's ability to transfer rents to elites, and that this may explain Putin's popular adventures

⁶⁹Similarly, inflation cannot explain China's foreign policy in 2010 because it rose almost continually throughout the year, making the mid-year reversal in Chinese foreign policy incongruous.

abroad.⁷⁰

Future research should proceed in three directions. First, scholars might consider how the opinions and living standards of a broader segment of the population condition foreign policy in other autocracies. Chinese foreign policy responds strongly to elite interests, but is the public sometimes more influential—for example, when urban bias is lower, rendering popular economic interests more uniform?

Second, I focus on Chinese behavior toward the United States, yet China may target other countries for diversion as well. Indeed, many other embassies complained to Ambassador Huntsman about such behavior in 2010. In particular, anti-Japanese statements are popular with Chinese citizens.⁷¹ Future research might consider how autocrats choose between diversionary targets.

Finally, researchers should consider whether diversion may target domestic groups. In China, the autocrat sometimes initiates propaganda campaigns that portray local officials as corrupt. The center’s prosecution of high level corruption cases has been very popular. “Domestic diversion” has precedent elsewhere: Mexico’s single party presidents periodically attacked business elites to bolster their popularity among ordinary people.⁷² Thus, diversion might emerge in the domestic class politics of autocracies as well.

This research agenda is pressing because if economic projections are correct, China may employ diversion more frequently in the future. The relative economic position of Chinese elites will deteriorate as China increases household consumption as a share of GDP.⁷³ In the long run, slowing GDP growth will depress stock returns and the autocrat will run out of SOEs to privatize, diminishing the value of the Shanghai Exchange as a vehicle for transfers. Such dynamics led elites in post-Soviet countries to oppose reform because of their interests

⁷⁰Robins-Early (2015).

⁷¹See the interesting account in Pomfret (2010a), which suggests that Chinese policymakers engaged in at least some diversion toward Japan while the Shanghai Exchange plummeted in April and May 2010. The Japanese foreign minister said of his Chinese counterpart Yang Jiechi, “He’s always been a peace lover. I guess the Chinese felt like yelling.”

⁷²See e.g. Gonzáles (2008).

⁷³Keck (2014); Naughton (2012).

in the rents from partial privatization.⁷⁴ Chinese elites may become similarly discontented in an era of normal growth. The autocrat might attempt to ameliorate their discontent by topping off transfers outside the stock market, but this will be difficult because the public is increasingly critical of corruption. In short, popular demands for clean government combined with elite demands for new transfers will put future Chinese leaders in a difficult position. Lacking tools to placate elites, they may resort to diversion more frequently.

⁷⁴Murphy, Shleifer, and Vishny (1992); Huang (2008); Pei (2006).

3 | The Influence of Congress upon America's China Policy

3.1 Introduction

How does legislative opposition condition the executive's ability to conduct foreign policy? Many international relations (IR) scholars argue that divided government is advantageous for foreign policy. Legislative opposition may improve an executive's bargaining position because ratification requirements restrict the universe of possible international agreements.¹ This is commonly known as the "Schelling conjecture"—that an executive can reference a hawkish legislature to extract concessions from his bargaining partner. Legislative opposition may also improve the credibility of executive statements, because if the executive promised too much to his negotiating partner, opposition politicians would soon object.² More, democratic leaders may be especially likely to uphold international agreements because they face domestic audience costs for transgressing them.³ This observation dates to Machiavelli, who wrote, "Instances might be cited of treaties broken by princes for a very small advantage, and of treaties which have not been broken by a republic for a very great advantage."⁴ Legislatures, then, may be beneficial because they bestow credibility upon executives negotiating abroad. And indeed, empirical studies find that legislatures render states more pacific, better warfighters, more durable alliance members, and able to

¹Schelling (1980); Putnam (1988). For a recent review on treaty compliance, see Simmons (2010).

²Schultz (1998). Also see Martin (2000).

³Fearon (1994); Tomz (2007).

⁴Machiavelli (1970, 1.58).

negotiate lower tariffs.⁵

Other scholars question the benefits of legislatures in international relations. Milner (1997) argues that domestic groups introduce veto points and therefore *never* make international cooperation more likely. Milner and Rosendorff (1997, 120) demonstrate that the Schelling conjecture “holds only when the legislature is not too hawkish.” In their model, legislative opposition reduces the prospects for international cooperation and shifts agreements toward the legislature’s ideal point. While there are relatively few empirical studies that support this view, one study finds that if Senate treaty consent is difficult to secure, foreign countries may “simply disregard US demands or abandon the negotiations entirely.”⁶ Another study finds that increasing the number of domestic veto players decreases the likelihood of forming a preferential trade agreement by 50 percent. “[D]omestic politics,” the authors conclude, “may be a greater obstacle to international co-operation than political or military relations among states.”⁷

This article explores one way in which legislative influence upon democratic foreign policy may be detrimental. If the legislature harms the interests of a foreign country, the foreign country may punish the executive in international negotiations and reduce his ability to realize gains from international cooperation. The foreign country may punish the executive for a number of reasons. If legislative hostility harms the foreign country, it may seek to deter the legislature from adopting such behavior in the future. Similarly, if the foreign country suspects that the executive may be colluding with the legislature to increase his bargaining leverage, then it should deter the executive from doing so lest it receive poor bargains in the future.

Additionally, legislative hostility may force the foreign leader to take a stand lest she suffer domestic audience costs for appearing weak. In response to legislative hostility, the

⁵This is a large literature, but see, for example, Howell and Pevehouse (2005); Powell and Pevehouse (2007); Kriner (2010); Bueno de Mesquita et al. (1999); Gaubatz (1996); Russett and Oneal (2001); Choi (2010); Leeds (1999); Mansfield, Milner, and Rosendorff (2002, 2000).

⁶Kelley and Pevehouse (2015, 541).

⁷Mansfield, Milner, and Pevehouse (2007, 432).

foreign country’s citizens may demand that their leader stand up for national interests and prestige. Empirical studies suggest that citizens care about the distributional implications of international negotiations and the nation’s reputation.⁸ Therefore, the foreign leader may be forced to adopt a tougher bargaining position to avoid being penalized by her constituency.

Finally, the foreign country may view the legislative-executive divide as an opportunity to move negotiations closer to its ideal point. Legislative opposition renders failure to reach an agreement costly for the executive, whose domestic political capital is at stake. As National Security Advisor Brent Scowcroft told President George H.W. Bush, “An ugly confrontation with Congress and Beijing awaits us ...a majority in both houses will be eager to humiliate our China policy.”⁹ Scholars of American politics find that divided government enables more credit claiming by the successful party.¹⁰ These stakes give the executive an interest in signing *any* international agreement, and the foreign leader may sense the opportunity to shift the terms of cooperation toward her ideal point. This may render international cooperation more elusive for the executive, or achievable but on less favorable terms. For all three reasons—deterrence, domestic audience costs, and strategic opportunity—legislative opposition to the executive’s foreign policy may reduce the nation’s ability to realize the gains from international cooperation.

I explore the relationship between legislative opposition and international cooperation in the context of US-China relations. What is the effect of anti-Chinese legislation upon China’s willingness to cooperate with the United States? Historically, the gap between congressional and presidential preferences on China has been wide. Since the early 1970s, American presidents have consistently pursued engagement with China, while Congress has condemned Chinese human rights and trade practices. American presidents have vetoed several China bills. Congress has attempted to override three vetoes.

The analysis employs two original datasets. The first is a complete history of China’s

⁸Tomz (2007).

⁹Scowcroft (1990).

¹⁰Nicholson, Segura, and Woods (2002).

relations with the United States between 1949 and 2014. It is drawn from three dozen primary and secondary sources and records 3,000 bilateral interactions across a host of issue areas and severity levels. I record daily episodes of diplomacy, criticism, cooperation, and conflict. The second dataset includes 2,758 congressional actions on China since 1973. It is drawn from the congressional register. It includes all resolutions, bills, amendments, and laws introduced or enacted in either chamber. I record whether or not each piece of legislation was hostile toward China.

Ascertaining the direction of causality can be difficult: does congressional hostility render China less likely to cooperate, or does Chinese recalcitrance generate congressional hostility? My identification strategy exploits the congressional calendar as an instrument for anti-Chinese legislation. The volume of congressional activity varies dramatically throughout the calendar year, and predictably. It is most common after the State of the Union address and before Memorial Day, Independence Day, the August congressional recess, and the fiscal year funding deadline of 1 October. Indeed, the volume of total legislation in these periods is more than two standard deviations greater than average. Because the congressional calendar generates exogenous variation in the volume of total legislation, it generates exogenous variation in anti-Chinese legislation. Thus, high-volume days can be exploited to circumvent endogeneity concerns about congressional hostility and Chinese foreign policy toward the United States. The evidence suggests that congressional hostility toward China reduces the probability of Chinese cooperation with the United States by a factor of four.

This paper advances our understanding of the relationship between domestic institutions and international relations. Scholars writing in the democratic peace tradition suggest that democratic institutions may enable states to secure more favorable international outcomes. However, the consequences of strategic legislative behavior remain relatively unexplored, due in part to the difficulty of addressing reverse causality concerns.¹¹ This study provides

¹¹Indeed, most empirical research focuses on the implications of *fixed* institutional features for international cooperation. A considerable body of work focuses on the number of domestic veto players, for example. See e.g. Mansfield, Milner, and Rosendorff (2000); Tsebelis (2002); Kastner and Rector (2003); Mansfield, Milner, and Pevehouse (2008); Henisz and Mansfield (2006).

evidence that when the legislature opposes the executive’s foreign policy agenda, the nation as a whole may realize fewer gains from international cooperation.

This paper proceeds as follows. Section 2 introduces the data on bilateral interactions and congressional hostility toward China. Section 3 justifies the congressional calendar as an instrument for anti-Chinese legislation and then presents the analysis. Section 4 draws on new archival evidence from the Reagan, George H.W. Bush, and Obama administrations to show that American policymakers believed that China punished them for congressional hostility. Section 5 considers scope conditions and concludes.

3.2 Data

3.2.1 Bilateral Data

US-China Interactions, 1949-2014

To test whether congressional hostility reduces the president’s ability to secure international cooperation, I constructed a dataset of over 3,000 bilateral interactions between 1949 and 2014 from three dozen primary and secondary sources listed in Appendix D. I drew from secondary sources, policymaker memoirs, case studies, periodicals that follow Chinese politics such as the *China Leadership Monitor*, declassified primary source documents, and leaked American diplomatic cables from 1990 onwards provided by WikiLeaks.¹² In all, I coded a diplomatic history of interactions between China and the United States. This analysis is restricted to 1973-2014, the period covered by the legislative data introduced below.

By hand coding some 10,000 pages of historical documents, I was able to capture private encounters that do not appear in traditional event datasets. In my coding scheme, a bilateral interaction is an *episode of contact* between the two states. For example, in 1950 Premier Zhou Enlai sent the United States private, third party warnings not to invade Korea

¹²Wikileaks covers US-China relations between 2003 and the end of 2009 with the greatest frequency. However, some cables cover the 1990-2002 period.

through the Indian ambassador to China. In 1980, China and the United States cooperated to install monitoring equipment in western China to spy on the Soviets. In 1986, the Reagan administration secretly requested Chinese assistance in arming the Nicaraguan contras. China complied. After being lobbied by FedEx and UPS in 2009, Secretary of State Hillary Clinton requested that China reduce barriers to entry in its postal market.

For all these episodes, I recorded the *date* of the interaction. When it was not possible to identify the exact date, I identified the month that it occurred. I next recorded the *source* and *target* of the interaction. Most international events are directional. For example, John F. Kennedy offered food aid to China, while Hank Paulson requested that China appreciate the renminbi. Some, however, involve equal effort by both parties, like negotiating or signing an agreement. I duplicated these events so both sides received credit equally.

I then recorded the *action* itself: diplomacy, criticism, cooperation, or conflict. With a few adjustments for IR theory discussed below, these categories are similar to the “quad scores” employed in event datasets, which record verbal cooperation, verbal conflict, material cooperation, and material conflict. I define *diplomacy* as cooperation in word rather than deed. As shown in Table 3.1, it includes positive statements, requests, meetings, negotiations, invitations, visits, explanations, reassurances, offers, statements of regret, proposals, and promises.

Cooperation entails material deeds. It includes audience cost generating official apologies, the release of imprisoned foreign nationals, concessions, the provision of economic or humanitarian aid, the signing of official agreements, presidential summits, and yielding militarily.

Criticism entails negative verbal interactions. As shown in Table 3.2, it includes unfriendly statements by representatives of the executive branch, the postponement of scheduled talks, the downgrading of diplomatic protocol for a visit, refusals, demands, warnings, private threats, and public threats made by low ranking officials. In keeping with the IR literature I draw the line between criticism and conflict at audience cost generating leader

Table 3.1: Positive Interactions

Action	
Positive statement	} Diplomacy
Request	
Meet	
Negotiate	
Invite	
Visit	
Explain	
Reassure	
Offer	
Express regret	
Propose	
Promise	
Apologize	} Cooperation
Release nationals	
Concede	
Aid	
Sign agreement	
Hold summit	
Yield militarily	

* See Appendix A for examples.

threats.¹³ Private threats between executives or their representatives are “cheap” because they do not incur audience costs. Public threats from low ranking or retired officials are “cheap” as well, since these individuals are not close to the executive branch.

Conflict includes negative material interactions. These include public leader threats, the obstruction of the other side’s initiatives, the withdrawal of support, the cancellation of planned exchanges, punitive economic actions, human rights violations, interfering in the other party’s domestic affairs, inciting anti-foreign nationalist protest, arresting the other state’s nationals, espionage, formally downgrading relations, and all military claims, exercises, and conflict.

Because Taiwan, Tibet, and Chinese dissidents are salient in the bilateral relationship, I record American cooperation with these actors as conflict with China (and vice versa).

¹³Fearon (1994); Weeks (2008). Some studies suggest that autocrats are only able to generate audience costs by inciting domestic nationalist protests (Weiss 2013, 2014; Kinne and Marinov 2013). The results are robust to this modification.

Table 3.2: Negative Interactions

Action	
Negative statement	}
Postpone	
Downgrade protocol	
Refuse	
Demand	
Warn	
Private threats	
Public low ranking threats	}
Public leader threats	
Obstruct	}
Withdraw support	
Cancel exchanges	
Punitive economic action	
Infringe upon human rights	
Intervene on behalf of dissident	
Incite protest	
Arrest nationals	
Espionage	
Develop weapon system	
Assert territorial claim	
Proliferate	
Downgrade relationship	
Military exercise	
Military conflict	

* See Appendix A for examples.

Examples of all action types appear in Appendix A.¹⁴

I then recorded the *issue area* of the interaction, such as arms sales or intellectual property rights, as well as its private or public *venue*. Finally, I recorded a *description* of the event and its *source*. The dataset excludes interactions between Congress and China to avoid double counting. Congressional action towards China is captured in the second dataset.

Figure 3.1 visualizes the bilateral relationship since 1949. The top panel shows the number of diplomatic, critical, cooperative, and conflictual interactions initiated by China each year. The bottom panel shows the same data for the United States. Diplomacy is more

¹⁴A note is appropriate on routine military patrols. There are many of these and they are difficult to record accurately. I record policy changes that alter military patrols—making them more aggressive, for instance, or mandating them in new areas—rather than the specific patrols themselves. This is appropriate because policymakers respond to changes in the other side’s assertiveness rather than to status quo patrols.

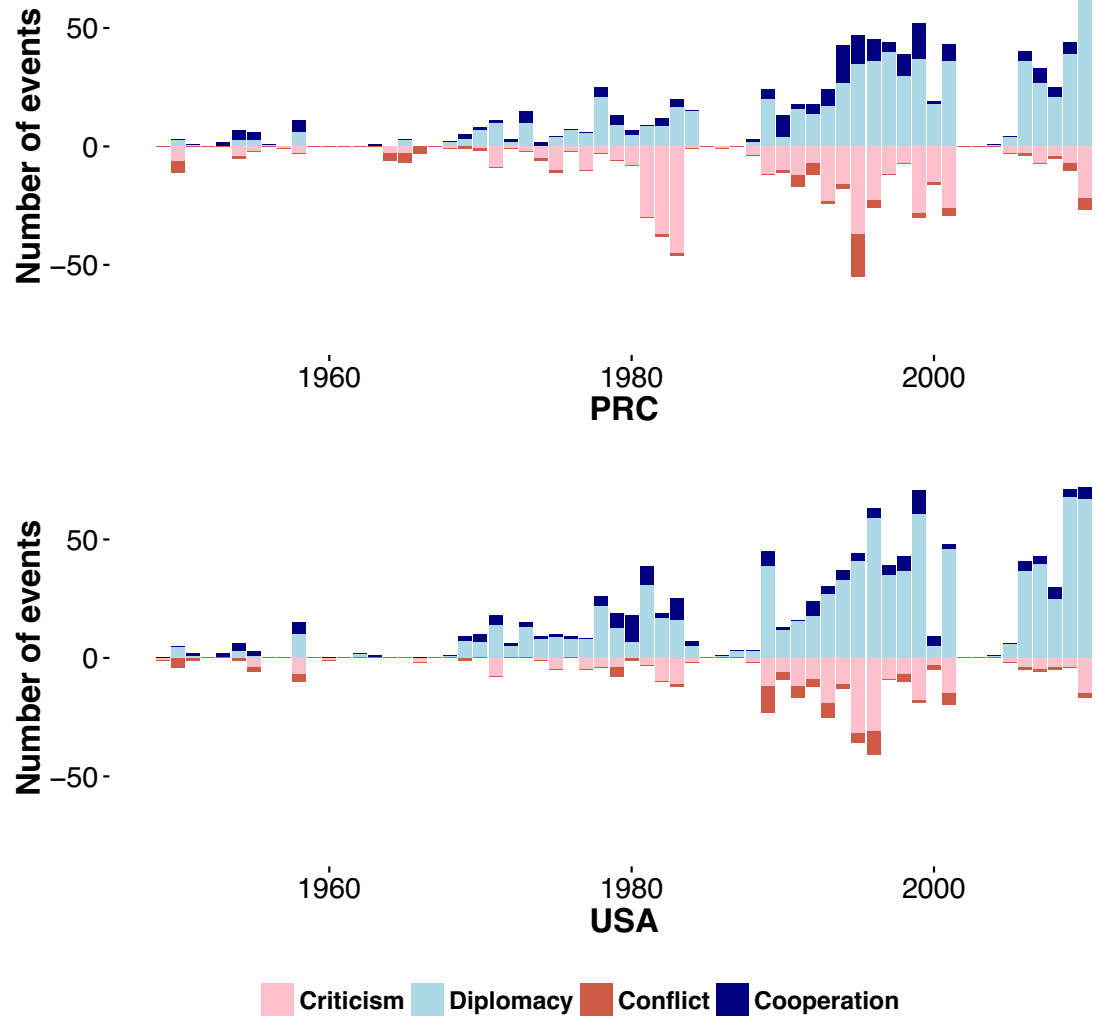
common than criticism and talk is far more common than action. The volume of bilateral interaction has expanded massively over the study period. This is unsurprising because the two countries avoided official contact before 1969 and normalized relations only in 1978. Two gaps in the dataset—in the mid-1980s and the early 2000s—reflect sparsity in the primary and secondary historical record. However, I expect that this source of measurement error is classical.

Comparisons

I eschewed existing event datasets for several reasons. The popular Militarized Interstate Dispute dataset records only costly forms of conflict, not cooperation. Daily event datasets such as GDELT or Gary King’s “10 million events” record bilateral interactions with much greater frequency, but with tremendous noise. By my estimation, 20-30% of these events are false positives or false negatives: respectively, events that were omitted by the automated event coding process and events that were included mistakenly. Additionally, I identified many more diplomatic action types than recorded in standard event ontologies like Conflict and Mediation Event Observations (CAMEO). Existing ontologies were constructed from news wires, which omit some important types of diplomatic interaction. Examples include demurring, canceling an invitation, postponing talks, expressing restraint, or offering asylum to a dissident. These have all been important in US-China relations but do not appear in standard ontologies. Omissions are also considerable for classified military interactions. For example, China has occasionally initiated aggressive aircraft tails and submarine dogfights. These episodes are very important, but appear only in policymaker memoirs or declassified documents.

Furthermore, many international negotiations take place out of the public eye and escape the attention of news wires. For example, the United States and China famously conducted third party diplomacy through Pakistan in 1969, when President Yahya Khan relayed Washington’s message that the United States sought dialogue with China rather than Chinese isolation. Months later, American ambassador Walter Stoessel made contact with Chinese

Figure 3.1: Diplomacy Data



ambassador Lei Yang in Warsaw, who invited him to the Chinese embassy for discussions. Stoessel expressed American hopes to reduce forces on Taiwan, and Lei emphasized China's willingness to discuss "any idea or suggestion presented by the United States on the basis of the five principles of peaceful coexistence."¹⁵ Washington proposed a high-level meeting. In October 1970, Chairman Mao invited American journalist Edgar Snow to view National Day celebrations beside him. During the festivities, Mao privately told Snow that China would welcome an official visit from President Nixon. The rest, of course, is history. In order to understand public international outcomes, it is crucial to record the private interactions that led to them.

3.2.2 Congressional Data

Legislative data are drawn from www.congress.gov, the official website for US legislative information. I collected all 2,758 pieces of legislation on China between 1973 and 2015.¹⁶ The dataset includes all resolutions, bills, amendments, and laws introduced or passed in either chamber. I coded each piece of legislation according to a dichotomous classification: whether or not it was hostile toward China.

A substantial proportion of legislation is overtly provocative toward China. Most commonly, it condemns China's human rights record. For example, S.Res. 451, introduced in May 2014, was entitled "A resolution recalling the Government of China's forcible dispersion of those peaceably assembled in Tiananmen Square 25 years ago, in light of China's continued abysmal human rights record."

Other legislation may not provoke China in the title of the bill but contains hostile language within. This is often the case with appropriations bills. For example, the 2016 national security appropriations bill provided \$8 million to support Tibetan cultural tradi-

¹⁵Ross (1995, 32-33, 28).

¹⁶The legislative actions in the dataset explicitly reference "China." Congress may entertain legislation that affects Chinese interests but which does not explicitly reference "China." For example, it might advance Chinese interests by lowering steel tariffs or harm Chinese interests by raising them. To assess this, one would have to code all 393,466 legislative actions between 1973 and 2015: a massive undertaking indeed. Nonetheless, I expect that this source of measurement error will be classical.

tions in China. H.R. 3694, the “STOP Organ Trafficking Act,” condemned organ trafficking worldwide but noted that it is particularly prevalent in China. China believes that bills like these interfere in its domestic affairs.

Still other legislation criticizes China for economic reasons. H.R. 1575, introduced in April 2005, threatened “To authorize appropriate action if the negotiations with the People’s Republic of China regarding China’s undervalued currency and currency manipulation are not successful.”

Finally, some legislation condemns executive policy toward China. For example, S.J. Res 19 introduced in April 2015 was “A joint resolution to express the disfavor of Congress regarding the proposed agreement for cooperation between the United States and the People’s Republic of China.” These actions criticize China and administration policy at once.

Overall, the dataset records 602 pieces of legislation that were hostile toward China between 1973 and 2015.¹⁷ Figure 3.2 shows the annual number of hostile legislative actions. Congressional hostility toward China increased dramatically after Tiananmen, tapered during President Clinton’s first term, and increased after the 1995-1996 Taiwan Strait crisis. Since then, congressional hostility toward China has trended downward with considerable volatility.

3.3 Analysis

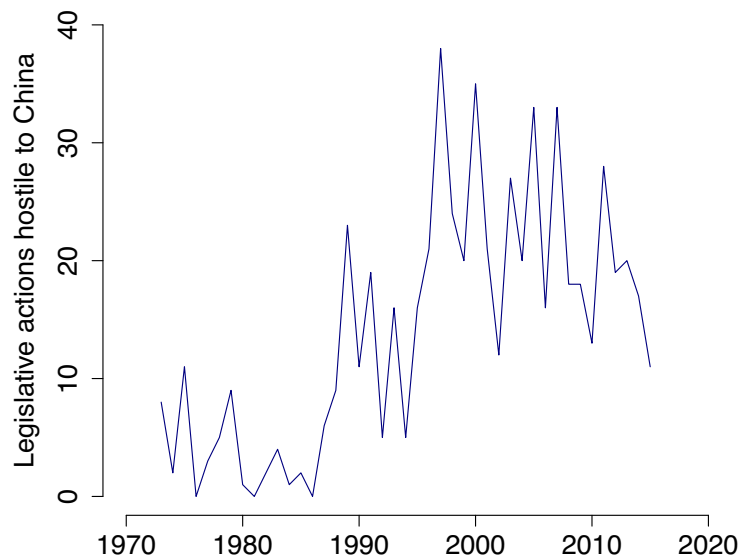
3.3.1 The Calendar Year and Congress

Reverse Causality Concerns

Congress often criticizes China because of Chinese policy decisions. But Chinese foreign policy also responds to congressional criticism. In a naïve logistic setting, congressional hostility would thus be correlated with the error term. This would generate biased and inconsistent estimates. Indeed, Table D.1 in the appendix demonstrates that in this setting,

¹⁷I also recorded 95 pieces of legislation that were favorable toward Chinese interests between 1973 and 2015. I employ these in a robustness check that examines Congress’ *net* hostility toward China.

Figure 3.2: Congressional Hostility Toward China



congressional hostility is significantly associated with *more* Chinese cooperation in a bivariate context, and is insignificantly related to Chinese cooperation in the presence of other covariates. We cannot be confident in these results because of reverse causality concerns.

However, if some other variable (known as the instrument) generates exogenous variation in congressional hostility, then endogeneity concerns may be circumvented. The observed relationship between the instrument and congressional hostility may be used to obtain predicted values of congressional hostility. Then, the predicted values may be used as an explanatory variable for Chinese cooperation. The predicted values are presumably exogenous, because they represent the share of congressional hostility explained only by variation in the instrument. Thus, if a valid instrument may be found, one may circumvent the endogeneity concerns that characterize Congress' relationship with China.

The Instrument

The congressional calendar provides such an instrument. Legislative activity is strongly influenced by the congressional calendar. To assess the rate of legislative activity across the calendar year, I scraped all 393,466 legislative actions between 1973 and 2015 from www.congress.gov with the computer programming language Python. I computed the average number of actions per day and the average number of actions that were hostile to China per day. These trends are shown in Figure 3.3.¹⁸

Legislative activity, the figure reveals, varies dramatically over the calendar year. It falls to zero during the congressional recess in August, the holiday season in December, and the holiday weekends of Presidents' Day, Memorial Day, Independence Day, and Thanksgiving. It spikes in advance of important (but arbitrary) calendar deadlines.

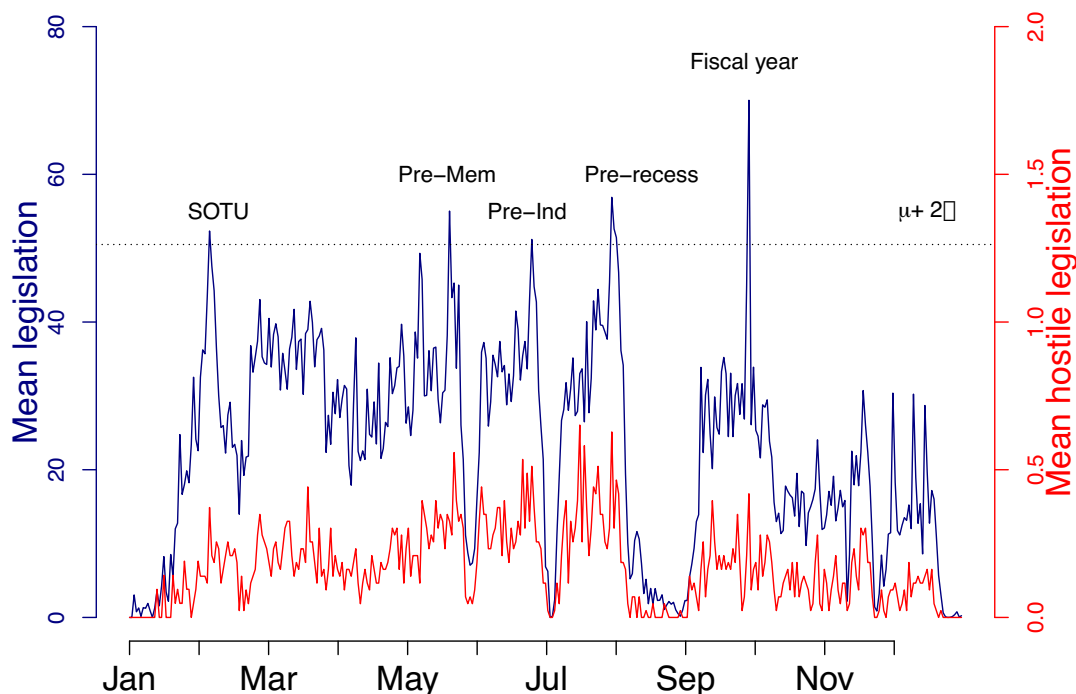
The dotted line shows a threshold for high volume days: those with an average level of legislative activity that is two standard deviations higher than the average level in the whole sample. On average, 23 pieces of legislation are acted upon per day in Congress. To meet the threshold, Congress must act upon 50.5 pieces of legislation in a given day. Congress typically meets this threshold on only seven days in the calendar year: 5 February, 20 May, 25 June, 30 July – 1 August, and 28 September.

The first burst occurs after the president's State of the Union address in early February. The address renders legislative action more likely because it brings lawmakers to Washington and sparks congressional debate over the president's priorities. The second and third bursts occur before Memorial Day and Independence Day. Publications that follow the Hill note that these weeks tend to be busy before members of Congress return to their home districts.¹⁹ The fourth burst occurs at the end of July before Congress goes into recess for the month of August. *Rollcall* describes this period as “among the most fevered fortnights of the

¹⁸For technical reasons, I drop observations from the first month of new congressional sessions (i.e., every other January since 1973). New sessions are characterized by a tremendous amount of administrative action unrelated to China. Figure D.1 in Appendix D plots daily average legislation including and excluding the first month of new sessions. In constructing my instrument, I excluded these months.

¹⁹See, for example, Leeds (2013).

Figure 3.3: Daily Bill Frequency



The blue line shows the average number of legislative actions per day between 1973 and 2015. The red line shows the average number of legislative actions that are hostile to China per day between 1973 and 2015. The dotted line shows the threshold employed as the instrument. Observations above the threshold represent days with high legislative volume, defined as more than two standard deviations more than the average level of legislative activity. In the sample, legislative activity averages 23.0 actions per day. One standard deviation is 13.8 actions. The threshold is 50.5 actions.

legislative year.”²⁰ The final burst precedes the beginning of the fiscal year on 1 October. Federal agencies must be funded before this date to operate. This burst reflects eleventh hour work on appropriations bills.

These calendar dates generate variation in the volume of total legislation and, by extension, anti-Chinese legislation. As shown in Figure 3.3, anti-Chinese legislation tracks total legislation closely. The correlation coefficient between the two time series is 0.78.

²⁰Hawkins (1015).

The Exclusion Restriction

To be valid, an instrument may not violate the exclusion restriction. Could these dates affect Chinese foreign policy toward the United States in any way other than through the congressional calendar? As legislators prepare to return to their home districts for Independence Day weekend and the August recess, these summer days pass in China like any others. The Chinese fiscal year begins on 1 January, not 1 October. Because nothing unusual happens in China in these three periods, they do not violate the exclusion restriction.

There are two potential violations of the exclusion restriction. The first obtains in early February, when the president gives the State of the Union address. Intuitively, it is possible that China could take issue with the tone of the address and hence refuse to cooperate. In fact, all addresses between 1973 and 2011 were neutral or positive in tone toward China.²¹ Nonetheless, the official Chinese newspaper has occasionally published a critical response to the address. Therefore I exclude the State of the Union from the instrument.

The second potential violation of the exclusion restriction obtains in late May. As legislators prepare to return to their home districts for Memorial Day weekend, China tightens its domestic security in preparation for the 4 June anniversary of the killings in Tiananmen Square. On 4 June, Congress usually introduces resolutions to commemorate those who died in the square. This does not violate the exclusion restriction because the effect of the date goes through Congress. However, the White House sometimes issues a statement about Chinese human rights problems on the same day. If China became less willing to cooperate with the United States because of the statement, the exclusion restriction would be violated. Indeed, China sometimes criticizes the statement directly. Even though the statement occurs after the Memorial Day high volume period, Chinese policymakers might anticipate it and adjust their behavior in May. Then, late May would be associated with both abundant legislation and Chinese recalcitrance. This would violate the exclusion restriction. Thus, I exclude the Memorial Day period from the instrument.

²¹All addresses are archived by Peters and Woolley (2016).

Table 3.3: Instrument

Dates	Source of Congressional Activity
20 – 25 June	Independence Day weekend
25 July – 1 August	August congressional recess
23 – 28 September	Fiscal year deadline

In short, Independence Day, the August congressional recess, and the fiscal year deadline generate exogenous variation in the volume of legislation but do not otherwise influence Chinese foreign policy. Therefore I construct a dichotomous instrument for anti-Chinese legislation, *High volume day_t*, which records a value of 1 each 25 June, 30 July – 1 August, and 28 September, and for the five days that precede each of these dates. Table 3.3 lists these days for convenience.

Table 3.4 shows the first stage of the IV model: the relationship between high volume days and hostile legislation.²² The model reports the bivariate relationship between the instrument on day t and congressional hostility toward China on day t . Both variables are dichotomous and the model is logistic. The evidence shows that congressional hostility toward China is 1.9 times as likely during high volume days.²³ The effect is precisely estimated owing to the day-level data and is significant at the $p < 2e - 16$ level.

3.3.2 Estimation

This subsection estimates whether congressional hostility decreases the probability of Chinese cooperation with the United States in an IV framework. The outcome variable is *Net cooperation_t^{PRC}*. It is a dichotomous indicator of whether China initiated more cooperation toward the United States on a given day than conflict. A net measure of cooperation less conflict is preferable to a measure of cooperation alone, because the bilateral relationship includes many streams of negotiation. For instance, suppose Congress criticized Chinese human rights on day t . On day $t + 1$, China refused to release a dissident, froze cultural

²²I report a logistic model for ease of interpretation. In practice, the `ivprobit` package in Stata estimates a probit model for the first stage. The results are essentially identical.

²³This number is calculated from $\exp(\beta)$, since the model is logistic.

Table 3.4: Congressional Hostility Toward China on High-Volume Days

	<i>Dependent variable:</i>
	Congressional hostility _t
High volume day _t	0.665*** (0.132)
Constant	-3.266*** (0.044)
Observations	15,492
Log Likelihood	-2,534.342
Akaike Inf. Crit.	5,072.684
<i>Note:</i>	*p<0.1; **p<0.05; ***p<0.01

exchanges, and signed a transportation agreement. A net measure would correctly reflect the deterioration of the overall relationship, whereas a measure of cooperation alone would incorrectly register an improvement.

The explanatory variable is *Congressional hostility_t*. It is a dichotomous record of whether Congress introduced legislation hostile to China on a given day. The instrument is *High volume day_t*, which records whether a given day fell within one of the three periods of unusually abundant legislative activity.

I control for other international and domestic factors that may influence China's level of cooperation with the United States. Recent bilateral interactions profoundly influence China's stance toward the United States. *Net cooperation^{USA}* records the number of cooperative acts the United States initiated less the number of conflictual interactions it initiated. *Net diplomacy^{USA}* records the number of diplomatic interactions the United States initiated less the number of critical interactions it initiated. Because Chinese policy may be path dependent, I include *Net cooperation^{PRC}* and *Net diplomacy^{PRC}* as well. I observe these variables within the past 28 days. This is a relatively long window, but interstate interactions occur infrequently.

Other slow moving variables may influence China's propensity to cooperate. As China grows more powerful, it may be less inclined to cooperate. Therefore I include the ratio of

Chinese to American *military expenditures* and Chinese *GDP per capita*. Because interdependent states cooperate more, I include the natural log of bilateral *trade volume*. I include the average value of these variables over the past 28 days, although they are almost always observed at the year level.

China may be more likely to cooperate with the United States when it is burdened elsewhere. Therefore I include a dichotomous indicator of whether China is involved in an ongoing *militarized interstate dispute*. This variable takes a value of 1 if China was involved in a dispute within the past 28 days.

China's domestic politics may also influence its tendency to cooperate. *Party congresses* chart new courses for Chinese foreign and domestic policy. China's *independence day* is a cause for nationalist celebration and might render China more aggressive abroad. I include dichotomous indicators for whether these events took place in the past 28 days.

Finally, I include three sets of fixed effects in separate models. Mao Zedong, Deng Xiaoping, Jiang Zemin, Hu Jintao, and Xi Jinping brought different priorities and negotiating strategies to the world stage. It would be unreasonable to constrain their response to congressional hostility to the same intercept. Therefore I include *leader* fixed effects. American administrations had different foreign policy agendas that influenced China's tendency to cooperate. Thus I include *administration* fixed effects. Finally, I account for unobserved sources of variation with *year* fixed effects.

Because the outcome and explanatory variables are dichotomous, I employ probit models to estimate the first and second stages of the IV model.²⁴ The estimating equation is:

²⁴I employ the `ivprobit` package in Stata.

$$\begin{aligned}
\text{Probit (Net cooperation)}_t^{PRC} = & \beta_1(\text{Congressional hostility})_t \\
& + \beta_2(\text{Net Cooperation})_{t-1:t-28}^{USA} \\
& + \beta_3(\text{Net Cooperation})_{t-1:t-28}^{PRC} \\
& + \beta_4(\text{Net Diplomacy})_{t-1:t-28}^{USA} \\
& + \beta_5(\text{Net Diplomacy})_{t-1:t-28}^{PRC} \\
& + \beta_6(\text{Military expenditure})_{t-1:t-28}^{PRC/USA} \\
& + \beta_7(\text{GDP per capita})_{t-1:t-28}^{PRC} \\
& + \beta_8(\text{Log trade volume})_{t-1:t-28}^{PRC+USA} \\
& + \beta_9(\text{Ongoing MID})_{t-1:t-28}^{PRC} \\
& + \beta_{10}(\text{Party Congress})_{t-1:t-28}^{PRC} \\
& + \beta_{11}(\text{Independence day})_{t-1:t-28}^{PRC} \\
& + \gamma_t + \epsilon
\end{aligned} \tag{3.1}$$

where γ_t represents a set of leader fixed effects, administration fixed effects, or year fixed effects depending on the model.

Table 3.5 presents the second stage results. Predicted congressional hostility is robustly associated with decreased Chinese cooperation. The point estimate is relatively stable across a variety of models. Model (1) presents the bivariate relationship. Model (2) introduces the recent history of bilateral interactions. Model (3) introduces other covariates: the military expenditure ratio, Chinese GDP per capita, logged trade volume, and China's dispute involvement, party congresses, and independence days. Model (4) includes fixed effects for Chinese leaders. Model (5) includes administration fixed effects. Model (6) includes year fixed effects.

In order to interpret the coefficients from a probit regression, one must compute the

marginal effects of the regressors. I do this in Stata. The estimated marginal effect of congressional hostility upon the probability of Chinese cooperation ranges from -3.6 (Model 6) to -4.2 (Model 5). That is, congressional hostility renders Chinese cooperation 3.6 to 4.2 times less likely. This is, obviously, an enormous estimated effect. Admittedly, cooperation occurs relatively infrequently: on average, China cooperates with the United States once every five months. Nonetheless, the effect of congressional hostility upon China's propensity to cooperate on any given day is very large and precisely estimated owing to the day-level data. The evidence suggests that legislative opposition strongly and significantly decreases the likelihood of international cooperation.

3.3.3 Robustness Checks

The results are robust to operationalizing the outcome variable in two different ways. While I believe that *Net cooperation* is the appropriate outcome variable, the results are robust to defining the outcome variable as cooperation alone. $Cooperation_t^{PRC}$ records whether China engaged in substantive cooperation with the United States on a given day. $Concessions_t^{PRC}$ is more focused still: it records whether China conceded to a specific recent American request. I record 95 Chinese concessions in the dataset. Overall, congressional hostility reduces broad and focused measures of Chinese cooperation.

The results are also robust to controlling for each type of event instead of their net values. They are also robust to observing the controls in different time frames: the past 7, 14, or 21 days instead of 28.

A final robustness check concerns the instrument itself. Congress occasionally introduces legislation favorable toward Chinese interests. Of the roughly 2,700 pieces of legislation I coded, 95 were favorable (compared to 602 unfavorable). The results are robust to constructing a net measure of congressional hostility toward China, defined as the number of unfavorable pieces of legislation on a given day less the number of favorable pieces of legislation that day.

Table 3.5: IV Results: Chinese Cooperation

Second Stage						
	<i>Dependent variable:</i>					
	Net cooperation $_t^{PRC}$					
	(1)	(2)	(3)	(4)	(5)	(6)
Congressional hostility $_t$	-4.49*** (0.559)	-4.631*** (0.514)	-4.601*** (0.824)	-4.530*** (0.836)	-4.719*** (0.702)	-4.318*** (0.813)
Net cooperation $_{t-1:t-28}^{USA}$		-0.121*** (0.032)	-.118*** (0.038)	-0.113*** (0.038)	-0.102*** (0.035)	-0.117*** (0.043)
Net cooperation $_{t-1:t-28}^{PRC}$		-0.031 (.020)	0.029 (.022)	0.029 (0.022)	0.021 (0.019)	0.010 (0.022)
Net diplomacy $_{t-1:t-28}^{USA}$		0.031*** (0.007)	0.031*** (0.009)	0.030*** (0.009)	0.031*** (0.009)	0.023*** (0.009)
Net diplomacy $_{t-1:t-28}^{PRC}$		0.010 (0.008)	.011 (.011)	0.010 (0.011)	0.002 (0.010)	0.009 (0.013)
Military expenditure $_{t-1:t-28}^{PRC/USA}$			0.639* (0.347)	0.243 (0.454)	-0.207 (0.578)	8.021 (7.381)
GDP per capita $_{t-1:t-28}^{PRC}$			-0.0001 (0.00007)	-0.00007 (0.00008)	0.00002 (0.00006)	-0.00003 (0.0009)
Log trade volume $_{t-1:t-28}^{PRC+USA}$			0.163*** (.060)	0.128*** (0.069)	0.003 (0.066)	-0.319 (0.553)
Ongoing MID (initiated) $_{t-1:t-28}^{PRC}$			0.054 (0.046)	0.048 (0.047)	0.113** (0.057)	0.138** (0.070)
Party congress $_{t-1:t-28}^{PRC}$			0.124 (0.146)	0.117 (0.148)	0.153 (0.144)	0.193 (0.169)
Independence day $_{t-1:t-28}^{PRC}$			-0.123 (0.118)	-0.122 (0.118)	-0.124 (0.114)	-0.161 (0.116)
Constant	-0.932* (0.559)	-0.863* (0.513)	-2.600** (1.047)	-2.321** (0.996)	-0.950 (0.836)	-1.592 (4.841)
Leader fixed effects	No	No	No	Yes	No	No
Administration fixed effects	No	No	No	No	Yes	No
Year fixed effects	No	No	No	No	No	Yes
Observations	15,492	15,464	12,783	12,468	12,774	8,372
Cragg-Donald Wald F statistic	26.5	25.2	29.1	28.9	28.7	27.7

3.4 Qualitative Evidence

Archival evidence from the Reagan, George H.W. Bush, and Obama administrations accessed through two FOIA requests and WikiLeaks demonstrates that American policymakers believed that China punished them for congressional hostility. They attributed Chinese behavior to domestic audience costs. Indeed, Chinese policymakers referenced “the feelings of one billion Chinese people” frequently when protesting congressional action. But because it was strictly in Chinese policymakers’ interest to claim that they faced domestic audience costs so they could extract policy concessions from the United States, it is difficult to adjudicate whether those audience costs were genuine. Indeed, I find suggestive evidence that Chinese policymakers may have occasionally misrepresented their understanding of the American political system in order to improve their bargaining position.

3.4.1 The Tiananmen Era

Even before Tiananmen rendered Congress a constant concern for Chinese policymakers, they demonstrated a deep understanding of the role of the legislature in American government. In 1984, the deputy chief of mission at the Chinese embassy in Washington, Zhao Xixin said that though Congress “is not for the moment inclined to repeal the Taiwan Relations Act,” the White House is “never powerless in formulating and implementing US foreign policy, if American history is any guide.”²⁵ In 1989, Under Secretary of State for Political Affairs Robert Kimmitt noted that the Chinese “carefully differentiate between relative ‘good guys’ (the President and ‘old friends’ like Nixon and Kissinger) and ‘bad guys’ (Congress, USIA, the media).”²⁶

During the 1980s, Chinese policymakers regularly asked the president to “intercede to block resolutions.” Noting that “the Dalai Lama’s lobby in the US was very effective,” Zhao said he “hoped the US government would thwart moves to introduce counterproductive

²⁵Foreign Broadcast Information Service (1984).

²⁶Kimmitt (1989).

resolutions” such as those criticizing China’s crackdown on Tibetan protesters in March 1989. Indeed, he warned, “If Congress continued, it would certainly hurt friendly US-China relations.”²⁷

The events of 4 June heightened these considerations. A week after the killings, Ambassador James Lilley cabled Washington that “We have to deal with the variable of the uncontrolled American reaction to China. Our media, our academics, disappointed businessmen, congressmen will all attack China and will go well beyond USG policy. Some Chinese will see an anti-Chinese conspiracy and they will attack us in kind.”²⁸ Two days later, Lilley emphasized that “Congressional resolutions, media and VOA coverage, individual critical statements by influential Americans and our occasional private intervention all make us vulnerable to a counter-attack. The Chinese have at all levels signalled us to watch our step or else.”²⁹

Lilley’s intuition was right: American citizens and legislators were appalled. Congressional hostility toward China more than doubled in 1989 and 1990. Over the summer, China repeatedly demanded “that the USG act to stem congressional interference in China’s internal affairs.”³⁰ In July, China summoned the American ambassador to convey this expectation. The Assistant Foreign Minister said that China was concerned

with the six [bills] that attack China and interfere in its internal affairs. This we cannot accept. ...Such activities by the US Congress hurt the feelings of 1.1 billion Chinese people, and repeated interference in China’s domestic affairs will do damage to our relations. ...We hope the US Government will act to stop Senate and House interference in our internal affairs.

President Bush was obviously unable to halt such “interference.” In July, Chinese officials complained that

²⁷US Embassy Beijing (1989e).

²⁸US Embassy Beijing (1989b)

²⁹US Embassy Beijing (1989a).

³⁰US Embassy Beijing (1989g).

In considering the 1990 Foreign Relations authorization bill from 19 to 20 July, the US Senate successively adopted amendments on the “future of Taiwan,” “future of Tibet,” “future of Hong Kong,” “Tiananmen Square Park,” etc., attacking China’s just action of quelling the counter-revolutionary rebellion, distorting and slandering China’s policies on Taiwan, Hong Kong, Tibet, and population, and wantonly interfering in China’s internal affairs. We express our utmost indignation at and lodge a strong protest against this.

...The successive adoption by the US Congress of bills interfering in China’s internal affairs has brought a continuous escalation of the anti-China wave and is thus bound to hurt most deeply the national feeling of the Chinese people and seriously undermine Sino-US relations.³¹

In October, Chinese ambassador Zhu Qizhen met with Brent Scowcroft as Congress attempted to impose economic sanctions on China. Zhu said that he “did not expect the votes being so lopsided.” He asked Scowcroft whether he thought the Pease and Solomon amendments might pass and whether he expected a lame duck session. Scowcroft acknowledged the possibility and Zhu warned that “if either of the resolutions becomes law, it will have a disruptive impact on economic relations and create a new grave situation in our bilateral relations.”

Less than a week later, Zhao Xixin repeated the message to American embassy officials in Beijing. In particular, he protested a resolution that congratulated the Dalai Lama on being awarded the 1989 Nobel Peace Prize, an amendment to the State Department authorization bill entitled “Chinese fleeing coercive population control policies,” and a resolution calling for further sanctions. He urged the administration “to prevent Congress from passing any legislation interfering in China’s internal affairs lest Sino-American relations suffer further damage.”³²

In late November, Chinese Vice Foreign Minister Liu Huaqiu threatened that if President Bush failed to veto the Pelosi Bill, China would suspend the Fulbright program in China and other educational and volunteer exchanges.³³ “The US government,” he said, “bears

³¹US Embassy Beijing (1989g).

³²Eagleburger (1989).

³³US Embassy Beijing (1989c).

unshirkable responsibility for the adoption of the bill by Congress.”

American policymakers became pessimistic about the prospects for bilateral cooperation that fall. Embassy officials attributed China’s inflexibility in foreign affairs to its domestic audience costs. They advised Washington that “the Chinese leadership bristles at US congressional criticism, and believes making any conciliatory gesture towards the US will open it to attack domestically on nationalistic grounds.” They explained that

It is important that the US understand that Chinese nationalism cannot tolerate foreign interference for any reason. ...The Chinese leadership can distinguish between private mass media in the US, the Congress, and the administration. They do not mind criticism in the media, but they see Congress as a part of the government even though it is not under the control of the administration and congressional criticism troubles them.³⁴

A few weeks later, Ambassador Lilley complained to Washington, “Too bad congress couldn’t have gotten its act together in August. Now we find ourselves running in the opposite direction from most of our allies and giving additional jolts to the Chinese just when we have some chance to turn things around a bit.”³⁵

As the fall turned to spring, the embassy continued to document the “tired litany of ways that the Congress and others had wounded the feelings of the Chinese people.”³⁶ It was clear that the prospects for bilateral cooperation had diminished. Scowcroft told the president, “China has reneged on the scorecard of positive steps since the Pelosi veto fight.”³⁷

Anecdotal evidence suggests that Chinese policymakers may have strategically obfuscated their understanding of the separation of powers. In December 1989, Jiang Zemin told American officials that “I don’t say that I have a full grasp of the relationship between congressional activities and power of the presidency.”³⁸ Such pronouncements were effective

³⁴US Embassy Beijing (1989d).

³⁵US Embassy Beijing (1989f).

³⁶US Embassy Beijing (1990b).

³⁷Scowcroft (1990).

³⁸*Meeting between General Secretary Jiang Zemin and National Security Advisor Scowcroft* (1990).

with at least some policymakers. While on a trip to Beijing in 1990, Congressman Ichord told Jiang that recent *People's Daily* articles revealed that the Chinese “simply did not know how the American system works.” Ironically, Jiang Zemin slipped an American aphorism into the discussion: “he who laughs last, laughs best.”³⁹ Unfortunately, because the relevant Chinese archives are closed, we cannot determine whether Chinese officials believed they benefited from congressional opposition. The Clinton administration soon judged they did, however. In the mid-1990s, President Clinton complained to Henry Kissinger, “God damn the Chinese. We bend over backwards to accommodate their domestic politics. Why can’t they do the same for ours?”⁴⁰

3.4.2 Obama Administration

Due to declassification schedules, internal documents are not yet available from the Clinton and George W. Bush administrations. However, WikiLeaks reveals that Obama administration officials fielded similar complaints from China. In June 2007, MFA Director General Liu Jieyi told American embassy chargé d’affaires Daniel Piccuta that

Some people in the United States make an issue of Darfur and attack China baselessly for domestic political reasons. If the proposed Congressional resolutions are adopted, they would send the wrong signal to the outside world and seriously damage United States-China cooperation on Darfur. The PRC urges the United States to stop consideration and passage of the resolutions. The United States administration should correctly guide Congress, the media and the public to better understand China’s constructive role on Darfur.

... Special Representative Liu Guijin will have a difficult time coordinating with the United States amidst all the “finger-wagging.”

To this, Piccuta replied much as Lilley had before him: that “Congress is a separate branch of the United States Government and is free to pass non-binding resolutions as it wishes.”⁴¹ A year later, Chinese policymakers requested that the Obama administration “use

³⁹US Embassy Beijing (1990a).

⁴⁰William J. Clinton Presidential Library archives.

⁴¹US Embassy Beijing (2007a).

its influence and urge Congress to refrain from issuing ‘anti-China’ resolutions” concerning violence in Tibet.⁴²

Clearly, the triangular relationship between Congress, the White House, and China has been longstanding. Congressional criticism of China, driven in part by domestic economic issues, leads China to punish the White House and makes international cooperation more difficult to achieve.

3.5 Conclusion

This study contributes to the IR literature by showing that whatever American policy-makers’ diplomatic overtures to their Chinese counterparts, congressional hostility toward China has consistently rendered China far less likely to cooperate with American requests. When the US Congress adopted hostile behavior toward China between 1973 and 2014, China’s probability of cooperating with the United States was reduced by a factor of four.

It may be rational for China to punish the United States for congressional hostility for a number of reasons. Because China expects to interact with the United States in the future, it should attempt to deter congressional behavior that harms its interests. Because China may face domestic audience costs for not standing up for Chinese interests, it should punish the United States for congressional hostility. And because China may sense that congressional opposition to the president jeopardizes his political capital and renders an agreement more pressing, it may seize the opportunity to shift the terms of international cooperation toward its ideal point.

Future research should proceed in several directions. This article suggests three reasons why a state might punish a foreign executive for foreign legislative hostility: iterated interaction, domestic audience costs, and strategic opportunity. I have not attempted to adjudicate between these mechanisms. A deeper understanding of them would generate predictions about when international negotiations are more or less affected by domestic politics.

⁴²American Embassy Beijing, Untitled Cable, 27 March 2008, WikiLeaks.

Ideally, this research agenda should be pursued in a cross-national context. In showing that legislative hostility toward China impairs the president's short term bargaining position, I have not shown that legislative hostility uniformly constrains an executive. Milner and Rosendorff (1997)'s formal model suggests that there is a threshold below which legislative opposition aids executives, as Schelling predicted, and above which it constrains executives. Is there an optimal amount of legislative opposition to executive foreign policy? What domestic or international factors determine that optimal level?

Future research should also explore why the US Congress has demonstrated so much hostility toward China. Is congressional hostility to China driven by genuine concern for the human rights of its citizens? Or are American legislators chiefly motivated by the economic concerns of their constituents, and use anti-Chinese rhetoric to posture themselves for reelection?

Finally, I have not explored the long-term effects of legislative opposition upon a foreign country's policies. While congressional criticism of Chinese human rights and trade practices render China less likely to cooperate in the short term, perhaps they affect Chinese behavior in the long term. Less favorable routine agreements are perhaps a small price to pay for long-term strategic goals that the legislature is as justified in setting as the executive. This difficult question is left for future research.

A | Example Event Appendix

A.1 Diplomacy

A.1.1 Positive statement

"On June 7, an MFA spokesperson pointed out that China and the United States were going to settle the aircraft collision incident through joint efforts and expressed the hope that Sino-American relations would return to their normal path because China had allowed the United States to ship back the U.S. airplane and the two sides had resolved the incident." (Zhang Tuosheng 2006, 407)

A.1.2 Request

"the foreign minister asked if I'd call the referendum a provocation again, this time in front of the Chinese press." (Rice 2011, 647)

A.1.3 Meet

"I had also put a lot of thought into the person I would meet with first, and the province's Communist Party secretary, Xi Jinping, was the perfect choice. A rising political star, Xi had been an extraordinarily effective leader in promoting Zhejiang's private sector, and I thought that a meeting with him would send another strong signal to Beijing." (Paulson 2015, 189)

A.1.4 Negotiate

"From the 6th through the 9th, the Ambassador usually had two meetings per day with Assistant Foreign Minister Zhou [to resolve the EP-3 crisis]." (Blair and Bonfili 2006, 383)

A.1.5 Invite

"Shortly thereafter [Edgar Snow attended National Day celebrations with Mao], Mao told Snow that he would welcome an official visit to China from President Nixon." (Ross 1995, 28)

A.1.6 Visit

"The first Strategic Economic Dialogue was held in Beijing on December 14 and 15, 2006. The 28-member delegation—the greatest number of Cabinet members and agency heads to travel in a single group to China from the US until then— included our ambassador, Sandy Randt, and six of my fellow Cabinet members... Federal Reserve chairman Ben Bernanke and Export-Import Bank head James Lambright also came. The Chinese side included 14 ministry-level officials, including central banker Zhou Xiaochuan, Finance Minister Jin Renqing, National Development and Reform Commission chairman Ma Kai, Labor and Security Minister Tian Chengping, and Commerce's Bo Xilai. This unprecedented high-ranking lineup showed the seriousness of both sides." (Paulson 2015, 198)

A.1.7 Explain

"the Chinese ambassador was put in the picture by Defense at five pm [on March 24th, 2008, about the accidental shipment of ICMBs to Taiwan]. We were very sensitive to the possibility that our mistake would be misconstrued or misinterpreted by the Chinese, and I wanted to do everything possible to underscore that it was a mistake, not a covert scheme to arm Taiwan with nuclear weapons. Throughout, I wanted complete transparency." (Gates 2014, 241)

A.1.8 Reassure

“The meeting with Li Yuanchao featured a lengthy personal presentation explaining in detail why China would not challenge the United States for global leadership and why there was no inevitable conflict in their interests.” (Bader 2012, 118)

A.1.9 Offer

“To sweeten the deal, the United States approved the license for a supercomputer for China’s national weather service and offered to lift the sanctions on certain satellites to be launched on Chinese carrier rockets.” (Suettinger 2003, 174)

A.1.10 Express regret

"On Saturday morning (Washington, D.C., time), Secretary of Defense William Cohen and Director of Central Intelligence George Tenet issued a joint statement that called the incident a targeting error and said, 'We deeply regret the loss of life and injuries from the bombing.'" (Campbell and Weitz 2006, 336)

A.1.11 Propose

“[Ambassador Beam proposed a cease-fire [on Quemoy] first, to be followed by other measures to reduce tension” (Suettinger 2006, 270)

A.1.12 Promise

“Clinton promised to move quickly to implement the most important commitment on the US side, to grant China permanent normal trade relations (PNTR) status through an act of Congress.” (Suettinger 2003, 387)

A.2 Cooperation

A.2.1 Apologize

After being refused a phone call with Tang Jiaxuan, “I decided I would do what I could from a distance to cool things down. I called the Vice-Chairman of the Joint Chiefs, General Joseph Ralston, and invited him to put on his uniform and join me in paying a midnight visit to the Chinese ambassador. Tom Pickering and the NSC’s Kenneth Lieberthal completed our delegation. I had known Ambassador Li Zhaoxing from the days when we had both served at the UN. I told him the bombing had been a terrible accident and that we were extremely sorry. I said I knew what it was like to have colleagues killed and hoped he would convey my condolences to the families of those who had died or been injured. I also said I was worried about the safety of American diplomats in Beijing; it was vital the demonstrations not grow more violent.” (Albright 2003, 531)

A.2.2 Release nationals

“Beijing responded to the ending of US patrolling of the Taiwan Strait by releasing two US citizens who had strayed into Chinese waters in February” (Ross 1995, 33).

A.2.3 Cooperative congressional action

“Bush promptly vetoed [the US-China Act of 1991], saying that... ‘If we present China’s leaders with an ultimatum on MFN, the result will be weakened ties to the West and further repression... not... progress on human rights, arms control, or trade.’ Bush insisted his policy of ‘comprehensive engagement’ and ‘targeting specific areas of concern with the appropriate policy instruments’ had achieved progress that would be undone by the bill’s restrictive provisions.” (Suettinger 2003, 134)

A.2.4 Concede

“Ultimately, China compromised to move the negotiations forward. Zhou’s subsequent message not only welcomed a meeting between Nixon and Mao in Beijing and a preliminary visit by Kissinger... it also accepted Washington’s formulation that each side could raise ‘the issue of principal concern to it.’ Equally significant, Zhou did not press for discussions on normalization; China was prepared to develop relations without focusing on the difficult issues associated with Taiwan. The two sides had reached agreement concerning the agenda of Kissinger’s talks in Beijing, the last political obstacle to his secret visit.” (Ross 1995, 36)

A.2.5 Aid

“When the Reagan administration sought covert Chinese cooperation in arming the US-supported Contras in their war with the Nicaraguan Sandinista government, Beijing was pleased to comply. The chief of the military mission at the Chinese embassy in Washington negotiated the cooperation with White House officials.” (Ross 1995, 238-239)

A.2.6 Sign agreement

USTR Mickey Kantor signed a “landmark agreement on intellectual property rights” (Suettinger 2003, 271-272)

A.2.7 Hold summit

“Jiang received the full protocol treatment on his formal arrival at the White House [in October 1997], including the welcome on the South Lawn, honor guard review, twenty-one-gun salute, national anthem, and ceremonial speeches. The two sides held a ninety-minute bilateral meeting, at which the ‘building toward a cooperative strategic partnership’ was fleshed out in somewhat more detail... the two sides would take a more positive approach to each other and look for new areas in which to develop cooperation and agreement. In that sense, it was more of an attitudinal change than any alteration in either side’s strategic

outlook or perspective.” (Suettinger 2003, 324)

A.2.8 Yield militarily

“Washington announced it would withdraw combat aircraft from Taiwan, and by June 1975, all such planes had been withdrawn.” (Ross 1995, 77)

A.3 Criticism

A.3.1 Negative statement

“after midnight on the day the US participants were to depart Beijing, the Chinese side called a meeting to discuss the US draft statement. In a very tense discussion, Qiao Guanhua subjected Kissinger to a barrage of blistering criticisms” (Ross 1995, 83)

A.3.2 Congressional hearing

“SFRC chair Fred Thompson (R-Tenn) launched hearings on the campaign finance scandal, which stretched out for months. The Senate hearings were mirrored by the Burton (R-Ind) hearings in the House Committee on Government Reform and Oversight, which stretched into 1999 and culminated in Burton calling the president a ‘scumbag’ in the Indianapolis Star.” (Suettinger 2003, 329-331)

A.3.3 Postpone

“PRC calls for postponement of Warsaw talks until after US election” (MacFarquhar 1972, xvii)

A.3.4 Downgrade protocol

“Lake and Christopher agreed to change the protocol arrangements from a welcoming banquet to a working dinner, at which America’s indignation at the missile launches would be conveyed at a very high level.” (Suettinger 2003, 253)

A.3.5 Refuse

“Human rights issues were... pushed hard during discussions by NSC and State Department officials, but China was not willing to be seen as giving in to the United States, particularly in advance of a major party congress.” (Suettinger 2003, 319)

A.3.6 Demand

“Although Li and I had developed a good relationship, he was now very stern; he demanded I make a formal apology on Chinese television.” (Albright 2003, 532)

A.3.7 Warn

“I pressed Hu again on continued currency flexibility, warning that the next Congress would be tough on this issue.” (Paulson 2015, 201)

A.3.8 Threaten privately

Over a working dinner at the Virginia estate of Pamela Harriman, the ambassador to France, Christopher told Liu Huaqiu “there would be ‘grave consequences’ (meaning American military involvement) if the exercises got out of hand.” (Suettinger 2003, 253).

A.3.9 Ultimatum

“After months of fruitless negotiations, Special Trade Representative Robert Strauss presented Deng Xiaoping with an ultimatum. Either Beijing compromised in three days or the United States would break off the negotiations and unilaterally impose quotas in accordance with article 3 of the US trade law, which would hold annual Chinese textile imports to the level of the first twelve of the previous fourteen months. This would actually reduce imports of Chinese textiles compared to the previous year.” (Ross 1995, 155)

A.4 Conflict

A.4.1 Threaten publicly

At a press conference, Dulles announced that the US was “prepared to use tactical nuclear weapons in response to a major communist move in the Taiwan area” (Suettinger 2006, 257).

A.4.2 Obstruct

The Chinese “insisted on remaining noncommittal about the cause of the sinking and blocked US and South Korean attempts in the United Nations to unambiguously identify North Korea as the responsible party.” (Bader 2012, 86)

A.4.3 Withdraw support

“the [claims-assets] talks fell apart, and... Beijing withdrew its agreement to the package settlement,” as China was unwilling to lose face by paying on the claims-assets issue, as a signed agreement would have been difficult to achieve prior to normalization, and as normalization looked like an increasingly distant goal due to the Watergate scandal.” (Ross 1995, 75)

A.4.4 Cancel exchanges

After progress in December 1969-February 1970, “the US incursion into Cambodia halted progress. Thus far, unilateral US concessions had reinforced the thinking of Chairman Mao and the arguments of moderate Chinese politicians, led by Premier Zhou, that US policy allowed for US-China cooperation against the Soviet threat. But the US invasion of Cambodia in the spring of 1970 played into the hands of Lin Biao and other Chinese hard-liners who had been contending that even in decline, the United States was dangerous. The invasion thus compelled Zhou and his colleagues temporarily to mute their support for rapprochement. More important, the invasion aroused Mao’s personal ire, for Washington

seemed to be taking his interest in improved relations for granted and disregarding Chinese interests just when he had sanction sensitive negotiations with US ‘imperialists.’ Under these circumstances, Beijing canceled the ambassadorial-level talks at Warsaw scheduled for May 20, and Mao wrote a blistering article condemning US imperialism.” (Ross 1995, 34)

A.4.5 Punitive economic action

“the US Export-Import Bank again froze loan guarantees for China, in response to a request from the State Department. The action, which delayed a \$35 million loan guarantee for the Guangzhou metro-rail project, was probably intended as a warning, but Beijing had already decided to resolve the issue.” (Suettinger 2003, 269)

A.4.6 Congressional act

“Leaders from both parties hastily prepared a resolution (S. Con. Res. 107) reaffirming the Taiwan Relations Act, particularly those clauses that stated American expectations that Taiwan’s future would be determined by ‘peaceful means’ and that maintained the right to sell arms to Taiwan. The resolution also enjoined the president to seek a public renunciation by Beijing of the use or threat or force. It passed the Senate on July 10 by a vote of 92-0, with the House version passing ten days later by 390-1.” (Suettinger 2003, 349)

A.4.7 Infringe upon human rights

“China announced it would bring to trial its most famous dissident, Wei Jingsheng, on charges of attempting to overthrow the Chinese government. ...[Wei] was pronounced guilty by a three-judge panel and sentenced to fourteen years in prison.” (Suettinger 2003, 242)

A.4.8 Intervene on behalf of dissident

“In Washington, the State Department reacted to the embassy’s handling of Fang with anger and dismay. Believing that Fang’s arrest after having been denied refuge at the embassy would precipitate a damaging public outcry, Secretary Baker and Undersecretary

Robert Kimmitt instructed Acting Assistant Secretary William Clark to have the embassy recontact Fang and authorize refuge for him and his family. Hoping to keep the situation low key, Clark telephoned Ambassador Lilley and urged him to ‘send somebody out to tell him that if he’d like to come to the Embassy, he can.’ Lilley immediately dispatched [acting DCM] Burghardt and [PA officer] Russell to the Jianguo Hotel, where they invited Fang to be the ‘guest of President Bush’ and spirited him and his family out the back door of the hotel and into a minivan, which drove them past PLA guards to the ambassador’s residence.” (Suettinger 2003, 70-71)

A.4.9 Incite protest

“As on Saturday, student protesters were transported to staging areas near the embassy, as were some government workers. But this time, they had to show proof of having secured permission to demonstrate from the Public Security Bureau. Near the embassy, they were organized into groups, given a designated route of march and a schedule for completion of their protest. Some were even given slogans to shout and banners to carry.” (Suettinger 2003, 372)

A.4.10 Arrest nationals

“The seriously damaged [EP-3] U.S. aircraft made a forced landing at Lingshui Military Airport, Hainan, at 9:33 a.m. The twenty-four member crew left the plane fifty minutes later, and Chinese personnel escorted the crew to a local guesthouse.” (Zhang Tuosheng 2006, 394).

A.4.11 Espionage

China hacked the US Office of Personnel Management, gathering data on American intelligence personnel.

A.4.12 Develop weapon system

“Despite President Hu’s desire to have my visit be picture-perfect to pave the way for his state visit to Washington just a little over a week later, in a remarkable display of chutzpah, the PLA nearly wrecked both trips. Just hours before my meeting with Hu, the PLA rolled out for the first time publicly its new J-20 stealth fighter. Photos of the plane hit the Chinese press about two hours before my session with Hu.” (Gates 2014, 527)

A.4.13 Assert territorial claim

“in what seemed to us an unwelcome innovation, the Chinese executive vice foreign minister gave a lengthy presentation on China’s rights in the South China Sea, highlighting this as a national priority (though not, as was publicly reported in the US media, calling it a ‘core interest’ like Taiwan or Tibet).” (Bader 2012, 76-77)

A.4.14 Proliferate

Intelligence reports suggested that “a Chinese corporation had sold 5,000 ‘ring magnets’—probably for use in uranium enrichment—to the A.Q. Khan Laboratory, long associated with Pakistan’s suspect nuclear weapons program.” (Suettinger 2003, 249)

A.4.15 Downgrade relationship

“Hoping to head off legislative restrictions on how to deal with China, Secretary of State Baker testified before the House Foreign Relations Committee on June 20. He augmented executive branch sanctions already in place by pledging that all official contacts with China above the assistant secretary level would be suspended, canceling a commerce secretary trip scheduled for July, and by promising to recommend the suspension of all new international financial institution lending to China.” (Suettinger 2003, 83)

A.4.16 Military exercise

We announced “that the aircraft carrier USS George Washington would move into position off the Korean coast and join military exercises with the South Korean Navy. In all, eighteen ships, some two hundred aircraft, and about eight thousand US and South Korean troops would participate over four days.” (Clinton 2014, 57-58)

A.4.17 Military conflict

“While patrolling off the coast of South Korea, the American carrier [Kitty Hawk] detected the presence of a Chinese submarine in its vicinity. Anti-submarine warfare aircraft and other planes from the Kitty Hawk engaged the Han class submarine and pursued it back toward the Chinese coast in a vigorous manner, dropping sonar buoys and simulating an attack.” (Suettinger 2003, 209)

B | Appendix to Chapter 1

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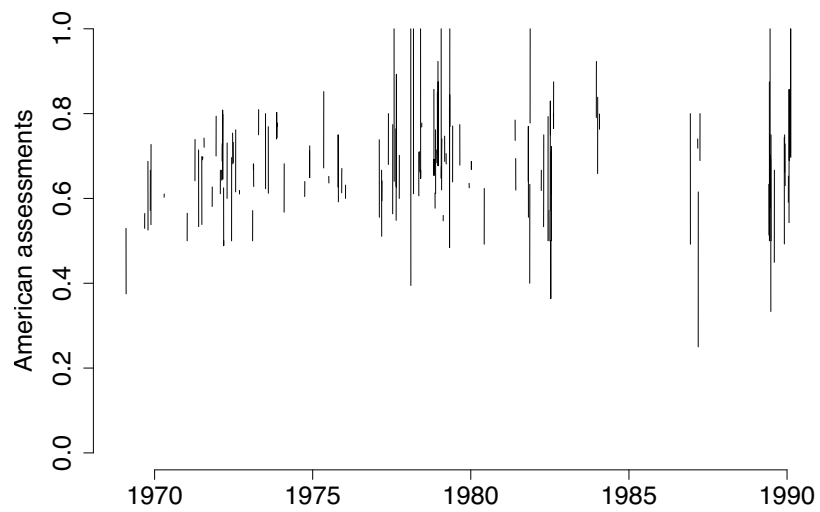
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Zhang Baijia (2006)

B.2 Daily American Assessments of China

Figure B.1: Daily American Assessments of China



B.3 OLS Results

B.3.1 Chinese Diplomacy and American Assessments

Models (1)-(3) in Table B.1 explore the relationship between Chinese diplomacy in the past fortnight and the level of American assessments on day t in an OLS setting. I include the standard set of controls. The evidence suggests that diplomacy is significantly associated with improved assessments. Model (4) presents a harder test for the theory: whether diplomacy is associated with improved assessments, conditional on no recent Chinese cooperation within the past 90 days. In the absence of recent cooperation, American policymakers might be suspicious of Chinese intentions. The association holds, even in this context. Model (5) continues to employ the conditional subset, and operationalizes the outcome variable as the *mean deviation in American assessments* rather than the level of assessments. (As discussed in the main body of the paper, American assessments do not trend strongly upward over the analysis period.) The analysis is robust to this modification. It is not, however, robust to the operationalization of American assessments as the *first difference from the last observed assessment*, shown in Model (5). Here, too, the conditional subset is employed.

Figure B.2 visualizes the results from Model (2). In this simulation, the number of Chinese diplomatic acts initiated in the past fortnight is varied from its minimum observed level (0) to its maximum observed value (9). All other values are held at their mean. While the confidence intervals are large (reflecting the fact that China rarely initiates more than one or two diplomatic acts per fortnight), the figure suggests that Chinese diplomacy is associated with more favorable American impressions of China.

B.3.2 American Assessments and American Cooperation

Table B.2 explores whether more favorable American assessments of China are associated with subsequent American cooperation with China. The outcome variable is *American cooperation* one a given day t . Cooperation is quite rare, so I dichotomize this outcome variable. The explanatory variable is the average level of *American assessments in the*

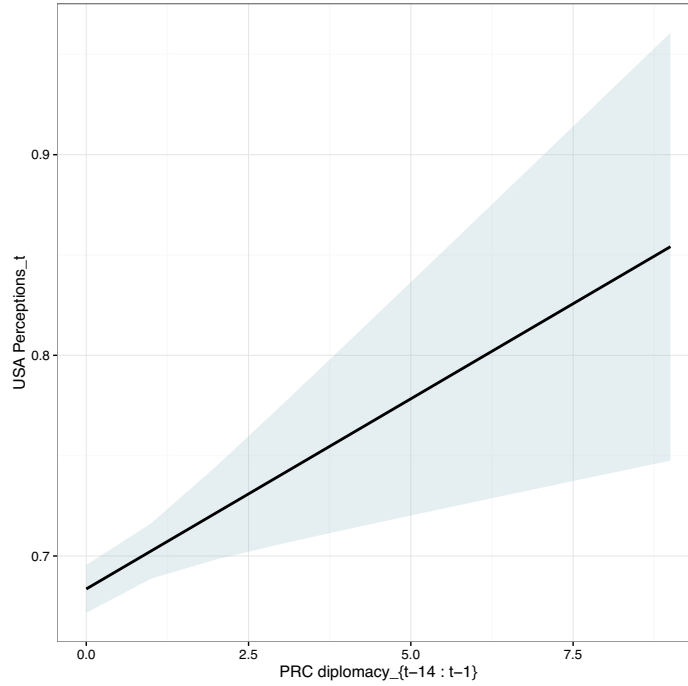
Table B.1: Chinese Diplomacy and American Assessments

	<i>Dependent variable: Assessments_t^{USA}</i>					
	Level				Mean Dev	Delta
	(1) OLS	(2) OLS	(3) OLS	(4) Markov	(5) Markov	(6) Markov
Assessments (level) _{t-15:t-28}	0.064 (0.047)	0.029 (0.048)	-0.049 (0.050)	-0.096 (0.061)	-0.096 (0.061)	-0.208** (0.088)
Diplomacy ^{PRC} _{t-1:t-14}	0.004 (0.005)	0.019*** (0.006)	0.015** (0.006)	0.025** (0.012)	0.025** (0.012)	0.025 (0.017)
Criticism ^{PRC} _{t-1:t-14}		-0.009 (0.006)	-0.009 (0.006)	-0.016 (0.011)	-0.016 (0.011)	-0.017 (0.016)
Cooperation ^{PRC} _{t-1:t-14}		0.0001 (0.018)	0.008 (0.018)			
Conflict ^{PRC} _{t-1:t-14}		0.082 (0.057)	0.104* (0.057)	0.182 (0.133)	0.182 (0.133)	0.121 (0.192)
Diplomacy ^{USA} _{t-1:t-14}		-0.022*** (0.006)	-0.022*** (0.006)	-0.019* (0.011)	-0.019* (0.011)	-0.019 (0.015)
Criticism ^{USA} _{t-1:t-14}		0.020** (0.009)	0.022** (0.009)	-0.001 (0.014)	-0.001 (0.014)	-0.001 (0.020)
Cooperation ^{USA} _{t-1:t-14}		-0.005 (0.013)	0.001 (0.013)	-0.008 (0.017)	-0.008 (0.017)	0.005 (0.025)
Conflict ^{USA} _{t-1:t-14}		0.0003 (0.014)	0.013 (0.014)	-0.028 (0.079)	-0.028 (0.079)	0.009 (0.114)
Ongoing MID ^{PRC} _{t-1:t-14}			0.027* (0.015)	0.003 (0.020)	0.003 (0.020)	0.010 (0.029)
Mil. exp. ^{PRC/USA} _{t-1:t-14}			0.765*** (0.251)	0.877** (0.399)	0.877** (0.399)	0.154 (0.577)
GDP per capita ^{PRC} _{t-1:t-14}			0.0002** (0.0001)	0.0002* (0.0001)	0.0002* (0.0001)	-0.0001 (0.0002)
Log trade vol. ^{PRC+USA} _{t-1:t-14}			0.010** (0.004)	0.015** (0.007)	0.015** (0.007)	-0.001 (0.010)
Party congress ^{PRC} _{t-1:t-14}			-0.174* (0.095)	-0.205** (0.095)	-0.205** (0.095)	-0.291** (0.137)
Election year ^{USA} _{t-1:t-14}			0.018 (0.017)	0.002 (0.025)	0.002 (0.025)	0.001 (0.036)
Constant	0.642*** (0.033)	0.672*** (0.033)	0.205 (0.139)	0.269 (0.201)	-0.417** (0.201)	0.195 (0.291)
Admin. fixed effects	N	N	Y	Y	Y	Y
Observations	593	593	593	300	300	300
R ²	0.004	0.052	0.120	0.162	0.162	0.070

Note:

*p<0.1; **p<0.05; ***p<0.01

Figure B.2: PRC Diplomacy and USA Perceptions



preceding fortnight, denoted as $t - 1 : t - 14$. The control variables are the same as in the preceding section.

Models (1)-(5) employ logistic models to estimate the probability of American cooperation in a given fortnight. Model (1) shows that more positive levels of American assessments are associated with a higher probability of American cooperation the following fortnight, controlling for the standard set of international and domestic factors. Model (2) shows that the first difference of American assessments is also associated with a higher probability of American cooperation the following fortnight. The relationship, however, is not significant when the analysis is restricted to the subset of observations without American cooperation in the preceding 90 days, as shown in Model (3). Models (4) and (5) shows that the association holds in the full sample and subset when the explanatory variable is the mean deviation of assessments.

The results are visualized in Figure B.3. This odds ratio plot shows the probability of American cooperation after a week in which American assessments exceeded their mean value

in the sample. The plots reflect all the controls described above. After a high-assessment week, American cooperation is more than twice as likely than usual the following week.

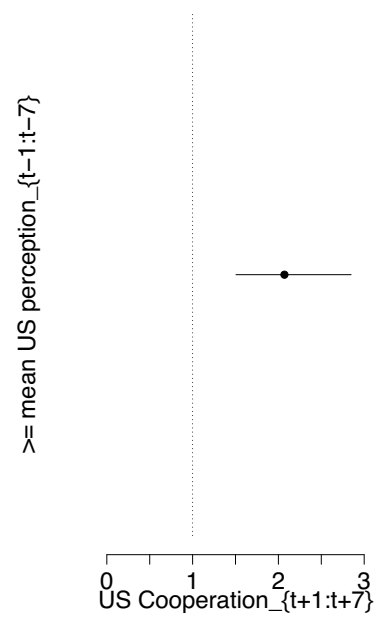
Table B.2: American Assessments and American Cooperation

	<i>Dependent variable:</i>			
	Cooperation _t ^{USA}			
	(1)	(2)	(3)	(4)
Mean dev assessments _{t-1:t-14}	2.933* (1.557)	3.178** (1.607)	4.385** (1.870)	5.301** (2.136)
Diplomacy _{t-1:t-14} ^{PRC}		-0.041 (0.315)	-0.035 (0.332)	-0.656 (0.595)
Criticism _{t-1:t-14} ^{PRC}		-1.543 (1.086)	-1.684 (1.125)	-2.175 (1.341)
Cooperation _{t-1:t-14} ^{PRC}		0.013 (0.814)	0.042 (0.825)	0.243 (1.139)
Conflict _{t-1:t-14} ^{PRC}		-13.435 (775.698)	-13.372 (765.868)	-13.513 (814.993)
Diplomacy _{t-1:t-14} ^{USA}		0.076 (0.298)	0.039 (0.303)	0.182 (0.346)
Criticism _{t-1:t-14} ^{USA}		0.519 (0.316)	0.486 (0.313)	1.124** (0.450)
Cooperation _{t-1:t-14} ^{USA}		-0.931 (1.040)	-0.979 (0.971)	
Conflict _{t-1:t-14} ^{USA}		0.099 (0.694)	0.110 (0.655)	1.599** (0.805)
Ongoing MID _{t-1:t-14} ^{PRC}			0.386 (0.482)	0.407 (0.511)
Military expenditure _{t-1:t-14} ^{PRC/USA}			-5.858 (7.483)	-3.679 (8.498)
GDP per capita _{t-1:t-14} ^{PRC}			-0.008** (0.004)	-0.008** (0.004)
Log trade volume _{t-1:t-14} ^{PRC+USA}			0.108 (0.156)	0.082 (0.166)
Party congress _{t-1:t-14} ^{PRC}			2.109* (1.093)	2.128* (1.106)
Election year _{t-1:t-14} ^{USA}			0.283 (0.582)	0.575 (0.592)
Administration fixed effects	No	No	Yes	Yes
Constant	-5.312*** (0.202)	-5.204*** (0.219)	7.241 (5.852)	6.243 (6.287)
Observations	5,328	5,328	5,328	4,556
Log Likelihood	-173.102	-168.494	-162.327	-140.276
Akaike Inf. Crit.	350.205	356.989	364.653	318.552

Note:

*p<0.1; **p<0.05; ***p<0.01

Figure B.3: Odds Ratios: US Assessments and Subsequent Cooperation



C | Appendix to Chapter 2

C.1 Figures and Tables

Figure C.1: Chinese Costly Conflict Initiation Toward US (Monthly)

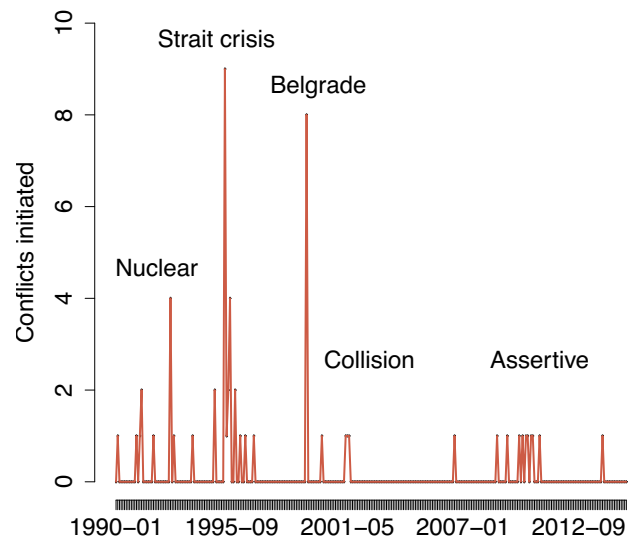
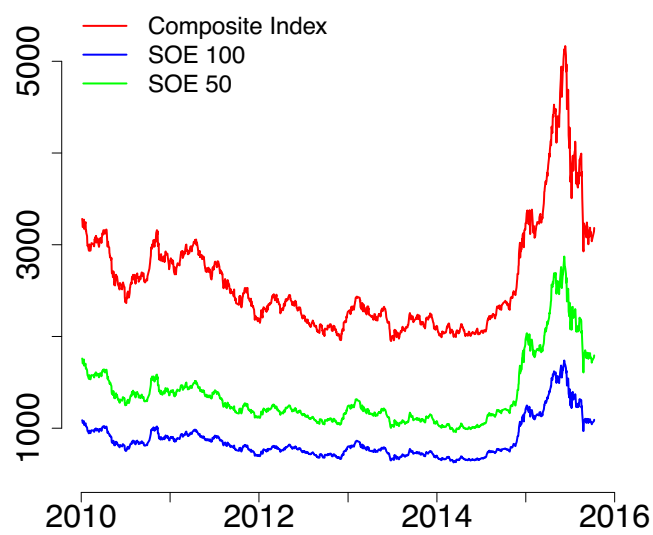


Figure C.2: Correlation of Selected SSE Indices



C.2 Robustness Checks

Table C.1: Placebo Tests: Negative Shocks

	<i>Dependent variable:</i>					
	PRC conflict _t			PRC cooperation _t		
	(1)	(2)	(3)	(4)	(5)	(6)
Negative shock (5%)	0.690 (0.450)			−0.370 (0.327)		
Negative shock (10%)		1.123* (0.600)			0.230 (0.362)	
Negative shock (15%)			2.551** (0.991)			−0.473 (0.517)
PRC conflict _{t−1}	−0.022 (0.186)	−0.020 (0.180)	0.030 (0.186)	0.022 (0.132)	0.041 (0.133)	0.025 (0.136)
USA conflict _{t−1}	0.008 (0.315)	0.019 (0.308)	−0.197 (0.347)	−0.326 (0.269)	−0.365 (0.276)	−0.329 (0.273)
CPI _{t−1}	−0.050 (0.084)	−0.073 (0.085)	−0.037 (0.082)	−0.064 (0.063)	−0.070 (0.063)	−0.066 (0.063)
Party Congress _{t:t−6}	−1.003 (1.386)	−1.170 (1.393)	−1.827 (1.483)	0.891** (0.411)	0.783* (0.417)	0.928** (0.423)
Δ S&P500 _{t−1}	0.023 (0.056)	0.025 (0.055)	0.032 (0.053)	−0.0001 (0.033)	0.008 (0.033)	−0.0004 (0.034)
Constant	1.087 (8.731)	3.489 (8.781)	−0.049 (8.539)	6.289 (6.415)	6.985 (6.414)	6.540 (6.370)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Month fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	253	253	253	253	253	253
Log Likelihood	−100.242	−99.795	−97.948	−158.546	−159.005	−158.765
Akaike Inf. Crit.	278.484	277.591	273.896	395.092	396.011	395.530

Note:

*p<0.1; **p<0.05; ***p<0.01

Table C.2: Placebo Tests: Positive Shocks

	<i>Dependent variable:</i>					
	PRC conflict _t			PRC cooperation _t		
	(1)	(2)	(3)	(4)	(5)	(6)
Positive shock (5%)	−0.464 (0.495)			0.755*** (0.274)		
Positive shock (10%)		−0.606 (0.579)			0.383 (0.336)	
Positive shock (15%)			−1.281 (0.795)			0.264 (0.426)
PRC conflict _{t−1}	−0.014 (0.191)	0.0002 (0.193)	0.001 (0.181)	−0.027 (0.133)	−0.005 (0.138)	0.034 (0.133)
USA conflict _{t−1}	−0.010 (0.308)	0.001 (0.310)	0.013 (0.297)	−0.248 (0.278)	−0.309 (0.276)	−0.345 (0.275)
CPI _{t−1}	−0.037 (0.086)	−0.037 (0.087)	−0.005 (0.088)	−0.071 (0.064)	−0.072 (0.064)	−0.073 (0.064)
Party Congress _{t:t−6}	−0.855 (1.373)	−0.816 (1.374)	−0.911 (1.380)	0.863** (0.419)	0.914** (0.416)	0.876** (0.415)
Δ S&P500 _{t−1}	0.017 (0.056)	0.014 (0.056)	0.006 (0.055)	0.012 (0.034)	0.010 (0.033)	0.006 (0.033)
Constant	−0.207 (8.999)	−0.198 (9.059)	−3.575 (9.214)	7.047 (6.471)	7.189 (6.442)	7.242 (6.479)
Year fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Month fixed effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	253	253	253	253	253	253
Log Likelihood	−100.835	−100.718	−99.853	−155.468	−158.579	−159.018
Akaike Inf. Crit.	279.670	279.435	277.706	388.936	395.158	396.035

Note:

*p<0.1; **p<0.05; ***p<0.01

Table C.3: Excluding Investor Anticipation

	<i>Dependent variable:</i>	
	PRC conflict _t	
	(1)	(2)
ΔSSE_{t-1}	-4.559** (2.254)	-4.736** (2.250)
PRC conflict _{t-1}	-0.141 (0.315)	0.001 (0.215)
USA conflict _{t-1}	0.161 (0.398)	0.105 (0.366)
CPI _{t-1}	-0.045 (0.115)	-0.041 (0.109)
Party Congress _{t:t-6}	-1.152 (1.568)	-1.600 (1.550)
$\Delta \text{S\&P500}_{t-1}$	0.022 (0.058)	0.025 (0.058)
Constant	-28.124 (4,382,511.000)	-28.607 (4,251,034.000)
Year fixed effects	Yes	Yes
Month fixed effects	Yes	Yes
Observations	228	236
Log Likelihood	-83.928	-86.855
θ	0.878* (0.458)	0.896* (0.469)
Akaike Inf. Crit.	243.857	249.711

¹ *p<0.1; **p<0.05; ***p<0.01

² Model (1) excludes observations in which China threatened the United States in $t - 1$.

³ Model (2) excludes observations in which either side threatened the other in $t - 1$.

Table C.4: Net Tendency and Additional Covariates

	<i>Dependent variable:</i>			
	PRC net conflict _t			
	(1)	(2)	(3)	(4)
ΔSSE_{t-1}	-0.896*** (0.245)	-0.896*** (0.245)	-0.897*** (0.246)	-1.391** (0.573)
PRC net conflict _{t-1}	-1.163*** (0.139)	-1.163*** (0.139)	-1.163*** (0.140)	-1.111*** (0.217)
USA net conflict _{t-1}	0.388** (0.157)	0.388** (0.157)	0.378** (0.158)	-0.188 (0.304)
CPI _{t-1}	-0.012 (0.021)	-0.012 (0.021)	-0.013 (0.021)	-0.041 (0.028)
Party Congress _{t:t-6}	-0.175 (0.128)	-0.175 (0.128)	-0.174 (0.128)	-0.070 (0.191)
$\Delta \text{S\&P500}_{t-1}$	-0.003 (0.011)	-0.003 (0.011)	-0.002 (0.011)	0.006 (0.011)
NPC Meeting _{t-1}		0.134 (0.171)	0.154 (0.174)	
Public crisis _{t-1}			0.137 (0.195)	
$\Delta \text{Floorspace construction}_{t-1}$				1.428 (1.899)
Constant	1.564 (2.185)	1.564 (2.185)	1.645 (2.196)	4.411 (2.907)
Year fixed effects	Yes	Yes	Yes	No
Month fixed effects	Yes	Yes	Yes	No
Observations	98	98	98	23
R ²	0.645	0.645	0.648	0.737
Adjusted R ²	0.462	0.462	0.458	0.614

Note:

*p<0.1; **p<0.05; ***p<0.01

Table C.5: Popular Crises

<i>Description:</i>	
1998-06 – 1998-07	Chen Xitong corruption scandal
2000-02	Liaoning pensioner protest
2003-04 – 2003-05	SARS
2004-10	Chongqing abuse of power riot
2005-01	Advanced nature of party campaign
2005-05 – 2005-08	Military protests
2005-06	Anhui abuse of power riot
2006-04 – 2006-08	Corruption
2008-01	Southern snowstorms
2008-03	Tibetan riots
2008-05	Sichuan earthquake
2008-06	Guizhou riot
2008-07	Milk melamine scandal
2008-12	Charter 08
2009-05	May 4 anniversary
2009-06	Tiananmen anniversary

D | Appendix to Chapter 3

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Swaine (2006)
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Whiting (2006)
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Xia Liping (2006)
Yan Xuotong (2010)
Zhang Tuosheng (2006)
WikiLeaks (2011)
Zhang Baijia (2006)

D.2 Naïve Logit Models

Table D.1: Naïve Logit Models

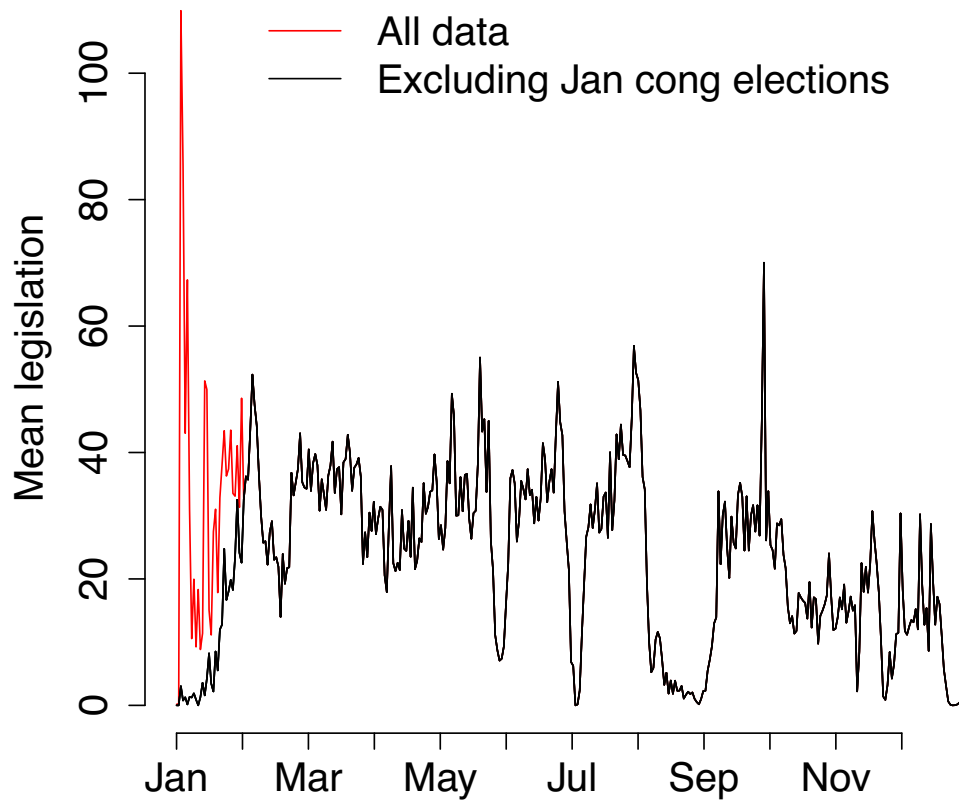
	Pr(Net cooperation _t ^{PRC})					
	(1)	(2)	(3)	(4)	(5)	(6)
Congressional hostility _t	0.779** (0.35)	0.613 (0.36)	0.417 (0.41)	0.420 (0.41)	0.358 (0.40)	0.436 (0.41)
Net cooperation _{t-1:t-28} ^{USA}		-0.377*** (0.13)	-0.365*** (0.13)	-0.354*** (0.13)	-0.306** (0.12)	-0.403*** (0.14)
Net cooperation _{t-1:t-28} ^{PRC}		0.130 (0.11)	0.067 (0.10)	0.069 (0.10)	0.033 (0.09)	-0.030 (0.09)
Net diplomacy _{t-1:t-28} ^{USA}		0.059 (0.03)	0.064 (0.03)	0.061 (0.03)	0.060 (0.04)	0.020 (0.04)
Net diplomacy _{t-1:t-28} ^{PRC}		0.051 (0.05)	0.067 (0.05)	0.062 (0.05)	0.037 (0.05)	0.072 (0.05)
Military expenditure _{t-1:t-28} ^{PRC/USA}			1.623 (1.70)	0.242 (2.30)	-0.634 (3.18)	29.945 (28.55)
GDP per capita _{t-1:t-28} ^{PRC}			-0.001*** (0.00)	-0.000 (0.00)	0.000 (0.00)	-0.002 (0.00)
Log trade volume _{t-1:t-28} ^{PRC+USA}			0.651*** (0.17)	0.393 (0.33)	-0.015 (0.35)	-1.648 (2.24)
Ongoing MID (initiated) _{t-1:t-28} ^{PRC}			0.240 (0.21)	0.194 (0.22)	0.456 (0.26)	0.438 (0.30)
Party congress _{t-1:t-28} ^{PRC}			0.203 (0.73)	0.165 (0.73)	0.276 (0.74)	0.496 (0.77)
Independence day _{t-1:t-28} ^{PRC}			-0.679 (0.52)	-0.669 (0.52)	-0.717 (0.52)	-0.602 (0.52)
Constant	-4.967*** (0.10)	-5.086*** (0.11)	-10.304*** (1.45)	-8.320*** (2.75)	-4.382 (3.29)	-2.188 (20.64)
Leader fixed effects	No	No	No	Yes	No	No
Administration fixed effects	No	No	No	No	Yes	No
Year fixed effects	No	No	No	No	No	Yes
Observations	15,492	15,464	12,783	12,468	12,774	8,372
Observations						

Note:

*p<0.1; **p<0.05; ***p<0.01

D.3 Daily Bill Frequency

Figure D.1: Daily Bill Frequency



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